

# **City of Neptune Beach, Florida**

## **Annual Financial Report**



**For The Fiscal Year Ended September 30, 2012**

**City of Neptune Beach, Florida**  
**Independent Auditor's Report, Basic Financial Statements and Required Supplementary Information**  
**For the Fiscal Year Ended September 30, 2012**

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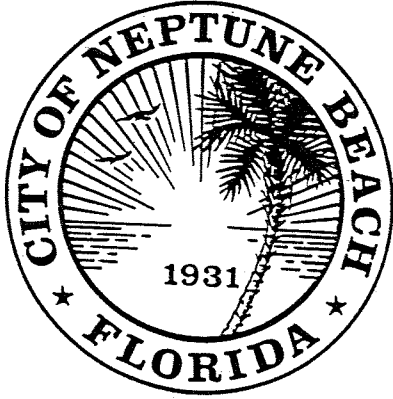
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# **Introductory Section**

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Annual Financial Report



# City of Neptune Beach, Florida

## Principal Officials

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### **Elected Officials**

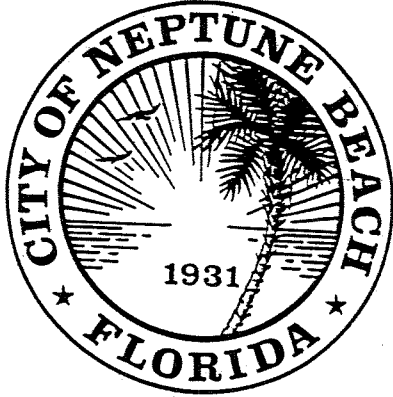
Harriet Pruette - Mayor  
John Jolly - Vice Mayor  
Richard Arthur - Councilor  
Kara Tucker - Councilor  
Scott Wiley – Councilor

### **City Council Appointed Officials**

James R. Jarboe - City Manager  
Patrick Krechowski - City Attorney  
Lisa Volpe – City Clerk

### **Appointed by City Manager/Confirmed by City Council**

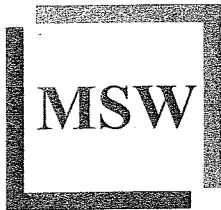
David W. Sembach - Director of Public Safety  
Steven L. Ramsey - Director of Finance



# Financial Section

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Annual Financial Report



**Masters, Smith & Wisby, P.A.**  
ACCOUNTANTS & BUSINESS ADVISORS

Steven D. Rawlins, CPA  
Gary M. Huggett, CPA  
Jeffrey F. Scales, CPA  
Jeffrey M. Jacobs, CPA

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor, City Councilors  
and City Manager  
City of Neptune Beach, Florida  
Neptune Beach, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Neptune Beach, Florida, (the City) as of and for the year September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally acceptable in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

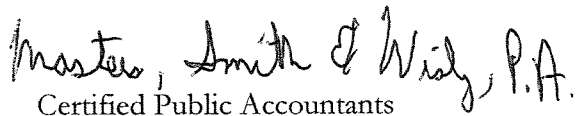
In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an

Honorable Mayor, City Councilors  
and City Manager  
City of Neptune Beach, Florida  
Neptune Beach, Florida

audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual fund financial statements and schedule of expenditures of the City of Jacksonville grant funds per Ordinance Code Chapter 118.205(e) as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. The combining and individual fund financial statements and the schedule of expenditures of the City of Jacksonville grant funds is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

  
Certified Public Accountants

March 28, 2013

## **Management's Discussion and Analysis**

(Unaudited)

As management of the City of Neptune Beach, we offer readers of the City of Neptune Beach's financial statements this narrative overview and analysis of the financial activities of the City of Neptune Beach for the fiscal year ended September 30, 2012.

### ***Financial Highlights***

- The assets of the City exceeded its liabilities at the close of fiscal year 2012 by \$11,939,252 (net assets). The net assets of the City increased by \$1,427,867 from the prior year total of \$10,511,385.
- At September 30, 2012, the City's governmental funds reported combined ending fund balances of \$2,677,976, an increase of \$206,662 in comparison with the prior year.
- At September 30, 2012, unassigned fund balance for the General Fund was \$2,121,966 or 48.9 % of total General Fund expenditures.
- General fund revenues increased \$118,226 or 2.7% above the prior fiscal year.
- The City's outstanding notes payable and bonded debt decreased by \$1,401,904 or 18.3% during fiscal year 2012. This decrease was due to normal debt payments made by the City for this fiscal year.

### ***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### ***Government-wide financial statements***

The government-wide financial statements are designed to provide readers with a broad overview of the City of Neptune Beach's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, licenses and permits, and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public

safety, public works and culture and recreation. The business-type activities of the City include Water and Sewer, Sanitation, and Stormwater. The government-wide financial statements can be found on pages 12 – 13 of this report.

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Neptune Beach, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds

### ***Governmental funds***

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Neptune Beach maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Neptune Beach adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with this budget.

### ***Proprietary Funds***

The City of Neptune Beach maintains three proprietary or enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Neptune Beach uses enterprise funds to account for its water and sewer fund, the sanitation fund, and the stormwater fund.

Proprietary funds provide the same type information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund and the Sanitation Fund, considered to be major funds of the City of Neptune Beach and the Stormwater Fund, reported as a non-major fund. The basic proprietary fund financial statements can be found on pages 18 - 20 of this report.

### ***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the City (e.g., pension beneficiaries). Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary financial statements can be found on pages 21 - 22 of this report.

### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 - 44 of this report.

### ***Other Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide the Police Officers pension benefits. Required supplementary information can be found on pages 45-48 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on the pension. Combining and individual fund statements and schedules can be found on pages 51-60 of this report.

### ***Government-wide Financial Analysis***

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$11,939,252 at the close of the fiscal year ended September 30, 2012.

By far the largest portion of the City's net assets \$9,179,740 (76.9 %) reflects its investment in capital assets (e.g., land, buildings, and equipment); less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### **City of Neptune Beach's Net Assets September 30, 2012 (In Thousands)**

		Governmental Activities		Business-type Activities		Total	
		2012	2011	2012	2011	2012	2011
Current and other							
assets		\$2,993	\$2,762	\$1,086	\$1,428	\$4,079	\$4,190
Capital Assets		5,094	5,289	10,801	10,533	15,895	15,822
Total Assets		8,087	8,051	11,887	11,961	19,974	20,012
Long-term liabilities							
Outstanding		679	927	6,567	7,705	7,246	8,632
Other liabilities		337	285	452	584	789	869
Total Liabilities		1,016	1,212	7,019	8,289	8,035	9,501
Net Assets							

Invested in capital assets, net of related debt	4,837	4,785	4,343	2,930	9,180	7,715
Restricted	612	545	341	341	953	886
Unrestricted	1,622	1,509	184	401	1,806	1,910
Total Net Assets	<u>\$7,071</u>	<u>\$6,839</u>	<u>\$4,868</u>	<u>\$3,672</u>	<u>\$11,939</u>	<u>\$10,511</u>

A portion of the City's net assets, \$953,182 (8.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets, \$1,806,330 represents unrestricted net assets. At the end of the current fiscal year, the City is able to report positive balances in total net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Following is a summary of activities for the City during the fiscal year ended September 30, 2012 and 2011.

**City of Neptune Beach's Change in Net Assets**  
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>REVENUES</b>						
<b>Program Revenues:</b>						
Charges of services	\$328	\$340	\$5,286	\$5,104	\$5,614	\$5,444
Operating grants and Contributions	926	876	-	-	926	876
Capital grants and Contributions	396	406	51	950	447	1,356
<b>General Revenues:</b>						
Property taxes	2,093	2,080	-	-	2,093	2,080
Sales and use taxes	612	598	-	-	612	598
Franchise and utility taxes	649	664	-	-	649	664
Intergovernmental revenue	159	154	-	-	159	154
Interest revenue	6	6	-	-	6	6
Miscellaneous	95	56	-	-	95	56
<b>Total Revenues</b>	<u>5,264</u>	<u>5,180</u>	<u>5,337</u>	<u>6,054</u>	<u>10,601</u>	<u>11,234</u>
<b>Expenses:</b>						
General Government	843	829	-	-	843	829
Public Safety	3,186	3,249	-	-	3,186	3,249
Public Works	658	660	-	-	658	660
Parks and Recreation	354	389	-	-	354	389
Interest on L-T debt	16	23	-	-	16	23
Water & Sewer	-	-	2,827	2,536	2,827	2,536
Sanitation	-	-	1,077	1,060	1,077	1,060
Stormwater	-	-	212	194	212	194
<b>Total Expenses</b>	<u>5,057</u>	<u>5,150</u>	<u>4,116</u>	<u>3,790</u>	<u>9,173</u>	<u>8,940</u>
Net increase(decrease) in net assets before transfers	<u>207</u>	<u>30</u>	<u>1,221</u>	<u>2,264</u>	<u>1,428</u>	<u>2,294</u>

Transfers	<u>25</u>	<u>25</u>	<u>(25)</u>	<u>(25)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net Assets	232	55	1,196	2,239	1,428	2,294
Net Assets – Beginning	<u>6,839</u>	<u>6784</u>	<u>3,672</u>	<u>1,433</u>	<u>10,511</u>	<u>8,217</u>
Net Assets – Ending	<u><u>\$7,071</u></u>	<u><u>\$6,839</u></u>	<u><u>\$4,868</u></u>	<u><u>\$3,672</u></u>	<u><u>\$11,939</u></u>	<u><u>\$10,511</u></u>

### ***Governmental activities***

Governmental activities increased the City of Neptune Beach's net assets by \$231,921 in the Governmental Funds accounting for a 3.4% increase in governmental net assets. This increase was largely due to the increased receipt of operating grants and property taxes and decreased expenses in public safety and parks and recreation.

### ***Business-type activities***

Business-type activities increased the City of Neptune Beach's net assets by \$1,195,946 accounting for a 53.4% increase in business-type activities net assets. This increase was due to increased rate charges in user fees.

### ***Overall Financial Position***

The overall financial position of the City of Neptune Beach has improved by \$1,427,867 thereby accounting for a total increase in net assets of 13.6%. This was attributable to the explanations given above for Governmental activities and Business-type activities.

### ***Financial Analysis of the City's Funds***

As noted earlier the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### ***Governmental funds***

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable resources*. Such information is useful in assessing the City of Neptune Beach's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of fiscal year 2012, the City's governmental funds reported combined ending fund balances of \$2,677,976, an increase of \$206,662 in comparison with the prior year. This increase is consistent with the prior year.

The General Fund is the chief operating fund of the City of Neptune Beach. At the end of fiscal year 2012, unassigned fund balance of the general fund was \$2,121,966. Unreserved fund balance represents 46.0% of the total general fund expenditures and transfers out. The fund balance of the City's General Fund increased by \$159,279 during the current fiscal year.

Non-major Governmental Funds consisting of special revenue funds and debt service funds have a combined fund balance of \$532,469. The net increase in fund balance during the current year in Non-major governmental funds was \$47,383. This increase was largely due to transfers in from other funds.

### ***Proprietary funds***

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$161,987.

### ***General Fund Budgetary Highlights***

The major difference in the amount of \$250,231 between the final budget and the actual expenditures in the General Fund was due to unanticipated grant and miscellaneous revenues and anticipated costs that were not incurred amongst the various departments.

### ***Capital Asset and Debt Administration***

#### ***Capital Assets***

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2012 amounts to \$15,895,237 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was .5%.

#### **City of Neptune Beach's Capital Assets** (Net of Depreciation) (In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Capital assets not being depreciated land and construction in progress	\$174	\$198	\$1	\$3008	\$175	\$3,206
Buildings and other improvements	4,463	4,513	10,800	7,463	15,263	11,976
Equipment	457	578	-	62	457	640
Total	<u>\$5,094</u>	<u>\$5,612</u>	<u>\$10,801</u>	<u>\$10,533</u>	<u>\$15,895</u>	<u>\$15,822</u>

Additional information on the City of Neptune Beach's capital assets can be found in Note E. on pages 34-35 of this report.

### ***Long-term Debt***

At the end of fiscal year 2012, the City of Neptune Beach had total bonded debt outstanding of \$6,769,630. Of this amount, \$257,109 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt represents bonds, Florida Department of Environmental Protection loans secured solely by specified revenue sources (i.e., revenue bonds) and an equipment installment note.

**City of Neptune Beach's Outstanding Debt**  
General Obligation, Revenue Bonds and SRF Loans  
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$257	\$504	\$ -	\$ -	\$257	\$504
Revenue Bonds	-	-	2,900	3,735	2,900	3,735
State Revolving Fund Loans	-	-	3,590	3,889	3,590	3,889
Equipment	-	-	23	44	23	44
Total	<u>\$257</u>	<u>\$504</u>	<u>\$6,513</u>	<u>\$7,668</u>	<u>\$6,770</u>	<u>\$8,172</u>

The City of Neptune Beach's total debt decreased by \$1,401,904 (17.15%) during the current fiscal year. This decrease was due to normal loan repayments.

Under Florida statutes, no debt limit margin is placed on local governments.

Additional information on the City's long-term debt can be found in Note F. on pages 35 - 38 of this report.

### ***Economic Factors and Next Year's Budgets and Rates***

The State of Florida, by constitution, does not have a state personal income tax and therefore the State operates primarily using sales, gasoline and corporate income taxes. Local governments (cities, counties, and school boards) primarily rely on property and a limited array of permitted other taxes (sales, gasoline, utilities services, etc.) and fees (franchise, occupational license, etc.) for their governmental activities. There are a limited number of state-shared revenues and recurring and non-recurring (one time) grants from both state and federal governments.

#### ***Other Economic Factors:***

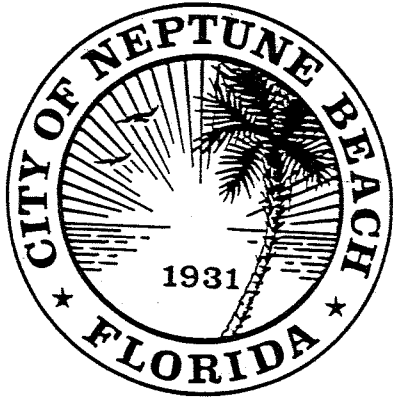
- The unemployment rate for the municipal service area is less than 10%. This compares favorably with the state's average unemployment rate and the national average unemployment rate.
- Inflationary trends in the region compare favorably to national indices.

#### ***Budget Highlights:***

- The City adopted the roll back rate of 3.3443 mills for its Ad Valorem millage rate this budget year. The prior year rate was 3.1826 mills.

### ***Requests for information***

This financial report is designed to provide a general overview of the City of Neptune Beach's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Neptune Beach, Finance Department Director, 116 First Street, Neptune Beach, Florida 32266.



# **Basic Financial Statements**

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Annual Financial Report

**City of Neptune Beach, Florida**  
**Statement of Assets**  
**September 30, 2012**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Equity in pooled cash and cash equivalents	\$ 2,480,313	\$ 315,765	\$ 2,796,078
Accounts receivable	14	553,620	553,634
Due from other governments	263,505	-	263,505
Prepaid expenses	25,390	16,464	41,854
Unamortized bond issuance costs	-	25,262	25,262
Restricted assets:			
Temporarily restricted:			
Equity in pooled cash and cash equivalents	-	341,340	341,340
Internal balances	166,041	(166,041)	-
Net pension assets	57,094	-	57,094
Capital assets:			
Land	37,861	-	37,861
Construction in progress	136,362	986	137,348
Buildings	4,131,553	3,285,756	7,417,309
Improvements other than buildings	2,766,080	17,700,744	20,466,824
Equipment	2,919,606	2,924,166	5,843,772
Accumulated depreciation	(4,897,154)	(13,110,723)	(18,007,877)
Total assets	<u>8,086,665</u>	<u>11,887,339</u>	<u>19,974,004</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	245,422	232,377	477,799
Deferred revenue	555	-	555
Deposits	11,310	-	11,310
Net post employment benefit obligation	78,000	-	78,000
Payable from restricted assets:			
Accounts payable and accrued liabilities	-	-	-
Deposits	-	206,253	206,253
Accrued interest payable	1,461	13,857	15,318
Non-current liabilities:			
Due within one year	429,758	937,890	1,367,648
Due in more than one year	249,140	5,628,729	5,877,869
Total liabilities	<u>1,015,646</u>	<u>7,019,106</u>	<u>8,034,752</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	4,837,199	4,342,541	9,179,740
Restricted for:			
Debt services	-	337,312	337,312
Pensions	57,094	-	57,094
Other Purposes	554,748	4,028	558,776
Unrestricted	1,621,978	184,352	1,806,330
Total Net Assets	<u>\$ 7,071,019</u>	<u>\$ 4,868,233</u>	<u>\$ 11,939,252</u>

The notes to the financial statements are an integral part of this statement.

City of Neptune Beach, Florida  
Statement of Activities  
For the Year Ended September 30, 2012

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
<b>Primary Government</b>						
Governmental activities:						
General government	\$ 843,089	\$ 271,700	\$ -	\$ 359,753	\$ (211,636)	\$ -
Public safety	3,186,201	56,554	327,340	26,378	(2,775,929)	-
Public works	658,103	-	351,860	-	(306,243)	-
Culture and recreation	354,370	-	246,398	10,000	(97,972)	-
Interest on long-term debt	15,677	-	-	-	(15,677)	-
Total governmental activities	5,057,440	328,254	925,598	396,131	(3,407,457)	-
Business-type activities:						
Water and sewer	2,827,382	3,723,300	-	50,766	-	946,684
Sanitation	1,076,583	1,270,177	-	-	-	193,594
Storm water utility	212,897	292,346	-	-	-	79,449
Total business-type activities	4,116,862	5,285,823	-	50,766	-	1,219,727
Total primary government	\$ 9,174,302	\$ 5,614,077	\$ 925,598	\$ 446,897	\$ (3,407,457)	\$ 1,219,727
						(2,187,730)
<b>General Revenues:</b>						
Property taxes					2,093,081	-
Sales and use taxes					611,563	-
Franchise and utility taxes					648,831	-
Unrestricted intergovernmental revenue					158,633	-
Interest revenue					6,368	1,219
Miscellaneous					95,902	-
Transfers					25,000	(25,000)
Total General Revenues and Transfers					3,639,378	(23,781)
Change in net assets					231,921	1,195,946
Net assets--beginning					6,839,098	3,672,287
Net assets--ending					\$ 7,071,019	\$ 4,868,233
						\$ 11,939,252

The notes to the financial statements are an integral part of this statement.

**City of Neptune Beach, Florida**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2012**

	<b>General Funds</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Equity in pooled cash and cash equivalents	\$ 1,919,129	\$ 561,184	\$ 2,480,313
Accounts receivable	14	-	14
Due from other governments	201,433	62,072	263,505
Due from other funds	222,187	102,973	325,160
Prepaid items	23,541	1,849	25,390
Total assets	<u>\$ 2,366,304</u>	<u>\$ 728,078</u>	<u>\$ 3,094,382</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable and accrued liabilities	\$ 208,932	\$ 36,490	\$ 245,422
Due to other funds	-	159,119	159,119
Deferred revenue	555	-	555
Deposits	11,310	-	11,310
Total liabilities	<u>220,797</u>	<u>195,609</u>	<u>416,406</u>
Fund Balances:			
Non spendable			
Prepays	23,541	-	23,541
Restricted for:			
Public safety	-	6,689	6,689
Roads	-	359,532	359,532
Other	-	269,310	269,310
Committed for:			
Public safety	-	31,567	31,567
Assigned for:			
Public events and purposes	-	10,637	10,637
Unassigned	2,121,966	(145,266)	1,976,700
Total fund balances	<u>2,145,507</u>	<u>532,469</u>	<u>2,677,976</u>
Total liabilities and fund balances	<u>\$ 2,366,304</u>	<u>\$ 728,078</u>	<u>\$ 3,094,382</u>

The notes to the financial statements are an integral part of this statement.

**City of Neptune Beach, Florida**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
**September 30, 2012**

Fund balances - total governmental funds (page 14)	\$ 2,677,976
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	
Capital assets - net	5,094,308
The cumulative effect of over (under) funding the actuarial required contributions to a employee benefit does not represent a financial asset or liability in the governmental funds. In the Statement of Net Assets, which is presented on the accrual basis, an asset (liability) is reported since the adjustment to expense is fully recognized in the Statement of Activities.	
Net pension asset	57,094
Net post employment benefit obligation	(78,000)
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the governmental fund balance sheet.	
	(1,461)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.	
Bonds payable	(257,109)
Compensated absences	(421,789)
Net assets of governmental activities	<u><u>\$ 7,071,019</u></u>

The notes to the financial statements are an integral part of this statement

**City of Neptune Beach, Florida**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**September 30, 2012**

	<u>General Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes	\$ 2,427,318	\$ 681,359	\$ 3,108,677
Franchise fees	314,595	-	314,595
Charges for services	9,076	-	9,076
Licenses and permits	166,398	-	166,398
Intergovernmental	1,104,471	-	1,104,471
Fines and forfeitures	47,817	16,088	63,905
Rentals	88,487	-	88,487
Investment Income	5,390	978	6,368
Grants and donations	247,400	67,850	315,250
Miscellaneous	86,154	800	86,954
Total revenues	<u>4,497,106</u>	<u>767,075</u>	<u>5,264,181</u>
<b>EXPENDITURES</b>			
Current:			
General government	783,801	-	783,801
Public safety	2,687,123	314,222	3,001,345
Public works	458,674	42,673	501,347
Culture and recreation	207,646	102,655	310,301
Debt Services:			
Principal	-	246,562	246,562
Interest	-	17,078	17,078
Capital outlay	200,085	22,000	222,085
Total expenditures	<u>4,337,329</u>	<u>745,190</u>	<u>5,082,519</u>
Excess of revenues over expenditures	<u>\$ 159,777</u>	<u>\$ 21,885</u>	<u>\$ 181,662</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	275,000	311,057	586,057
Transfers out	<u>(275,498)</u>	<u>(285,559)</u>	<u>(561,057)</u>
Total other financing sources (uses)	<u>(498)</u>	<u>25,498</u>	<u>25,000</u>
Net changes in fund balances	<u>\$ 159,279</u>	<u>\$ 47,383</u>	<u>\$ 206,662</u>
Fund balances - beginning	1,986,228	485,086	2,471,314
Fund balances - ending	<u><u>\$ 2,145,507</u></u>	<u><u>\$ 532,469</u></u>	<u><u>\$ 2,677,976</u></u>

The notes to the financial statements are an integral part of this statement

**City of Neptune Beach, Florida**  
**Reconciliation of Statements of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**For the Year Ended September 30, 2012**

Net change in fund balances - total governmental funds \$ 206,662

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	222,085	
Less current year depreciation	(416,780)	(194,695)

In the governmental funds, contributions made to employee benefits in excess of the the actuarial required contribution amount are reported as an expenditure. In the Statement of Net Assets, which is presented on the accrual basis, an asset (liability) is reported since the adjustment to expense is fully recognized in the Statement of Activities.

Decrease in net pension assets		(2,332)
Increase in post employment net benefit obligation		(27,600)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets

Principal payments		246,562
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Some expenses reported in the Statement of Activities do not require use of current financial resources and therefore are not reported as expenditures in the funds.

Change in interest payable		1,401
Change in compensated absences payable		1,923

Change in net assets of governmental activities		\$ 231,921
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City of Neptune Beach, Florida  
Statement of Net Assets  
Proprietary Funds  
September 30, 2012

**Business-type activities - Enterprise Funds**

	<b>Water and Sewer</b>	<b>Sanitation</b>	<b>Stormwater Utility</b>	<b>Total</b>
<b>ASSETS</b>				
Current assets:				
Equity pooled in cash and cash equivalents	\$ 121,773	\$ 181,895	\$ 12,097	\$ 315,765
Accounts receivable, net of allowance	393,209	129,214	31,197	553,620
Prepaid expenses	12,431	2,562	1,471	16,464
Total current assets	<u>527,413</u>	<u>313,671</u>	<u>44,765</u>	<u>885,849</u>
Non-current assets:				
Equity pooled in cash and cash equivalents	341,340	-	-	341,340
Unamortized bond issuance costs	25,262	-	-	25,262
Capital assets:				
Buildings	3,285,756	-	-	3,285,756
Improvements other than buildings	17,676,986	-	23,758	17,700,744
Equipment	2,149,576	301,456	473,134	2,924,166
Construction in progress	-	-	986	986
Less Accumulated depreciation	<u>(12,586,937)</u>	<u>(301,456)</u>	<u>(222,330)</u>	<u>(13,110,723)</u>
Total capital assets	<u>10,525,381</u>	<u>-</u>	<u>275,548</u>	<u>10,800,929</u>
Total non-current assets	<u>10,891,983</u>	<u>-</u>	<u>275,548</u>	<u>11,167,531</u>
Total assets	<u>11,419,396</u>	<u>313,671</u>	<u>320,313</u>	<u>12,053,380</u>
<b>LIABILITIES</b>				
Current liabilities from unrestricted assets:				
Accounts payable and accrued liabilities	145,823	79,383	7,171	232,377
Due to other funds	102,973	-	63,068	166,041
Compensated absences	23,164	-	4,372	27,536
Total current liabilities payable from unrestricted assets	<u>271,960</u>	<u>79,383</u>	<u>74,611</u>	<u>425,954</u>
Current liabilities payable from restricted assets:				
Accounts payable and accrued liabilities	-	-	-	-
Deposits	206,253	-	-	206,253
Current portion of long-term debt	887,989	-	22,365	910,354
Accrued interest payable	13,857	-	-	13,857
Total current liabilities payable from restricted assets	<u>1,108,099</u>	<u>-</u>	<u>22,365</u>	<u>1,130,464</u>
Non-current liabilities:				
Compensated absences	74,171	-	6,524	80,695
Bonds payable	2,320,000	-	-	2,320,000
Loans payable	3,282,167	-	-	3,282,167
Less deferred loss on bonds refunding	(44,319)	-	-	(44,319)
Less unamortized bond discount	(9,814)	-	-	(9,814)
Total non-current liabilities	<u>5,622,205</u>	<u>-</u>	<u>6,524</u>	<u>5,628,729</u>
Total liabilities	<u>7,002,264</u>	<u>79,383</u>	<u>103,500</u>	<u>7,185,147</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	4,089,358	-	275,548	4,364,906
Restricted for:				
Debt services	337,312	-	-	337,312
Renewal and replacement	4,028	-	-	4,028
Unrestricted	(13,566)	234,288	(58,735)	161,987
Total Net Assets	<u>\$ 4,417,132</u>	<u>\$ 234,288</u>	<u>\$ 216,813</u>	<u>\$ 4,868,233</u>

The notes to the financial statements are an integral part of this statement

**City of Neptune Beach, Florida**  
**Statement of Revenues, Expenses, and Changes**  
**in Fund Net Assets Proprietary Funds**  
**For the Year Ended September 30, 2012**

**Business-type activities - Enterprise Funds**

	<b>Water and Sewer</b>	<b>Sanitation</b>	<b>Stormwater Utility</b>	<b>Total</b>
Operating Revenue:				
Charges for services	\$ 3,723,300	\$ 1,270,177	\$ 292,346	\$ 5,285,823
Total operating revenues	<u>3,723,300</u>	<u>1,270,177</u>	<u>292,346</u>	<u>5,285,823</u>
Operating Expenses				
Personal services	1,234,660	143,766	103,340	1,481,766
Utilities	299,648	-	342	299,990
Supplies and materials	224,091	18,499	10,185	252,775
Consulting engineers and contractual services	159,602	898,365	22,682	1,080,649
Depreciation and amortization	366,827	-	47,151	413,978
Repairs and Maintenance	237,499	6,517	18,583	262,599
Insurance	50,878	9,436	5,887	66,201
Total operating expenses	<u>2,573,205</u>	<u>1,076,583</u>	<u>208,170</u>	<u>3,857,958</u>
Operating gain/(loss)	<u>1,150,095</u>	<u>193,594</u>	<u>84,176</u>	<u>1,427,865</u>
Non-operating revenues (expenses)				
Interest revenue	1,101	66	52	1,219
Contributed capital	50,766	-	-	50,766
Interest/amortization expense	(254,177)	-	(4,727)	(258,904)
Total non-operating revenues (expense)	<u>(202,310)</u>	<u>66</u>	<u>(4,675)</u>	<u>(206,919)</u>
Gain/(loss) before operating transfers	947,785	193,660	79,501	1,220,946
Operating transfers	-	-	(25,000)	(25,000)
Change in net assets	947,785	193,660	54,501	1,195,946
Total net assets - beginning	3,469,347	40,628	162,312	3,672,287
Total net assets - ending	<u>\$ 4,417,132</u>	<u>\$ 234,288</u>	<u>\$ 216,813</u>	<u>\$ 4,868,233</u>

The notes to the financial statements are an integral part of this statement

City of Neptune Beach, Florida  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended September 30, 2012

**Business-type activities - Enterprise Funds**

	Water and Sewer	Sanitation	Stormwater Utility	Total
<b>Cash Flows from Operating Activities</b>				
Cash received from customers	\$ 3,707,293	\$ 1,261,427	\$ 290,272	\$ 5,258,992
Cash paid to suppliers	(1,106,224)	(935,251)	(56,450)	(2,097,925)
Cash paid to employees	(1,234,660)	(143,766)	(103,340)	(1,481,766)
Net cash provided by operating activities	<u>1,366,409</u>	<u>182,410</u>	<u>130,482</u>	<u>1,679,301</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Payments under interfund loan agreements	(632)	(4,369)	(29,966)	(34,967)
Transfers to other funds	-	-	(25,000)	(25,000)
Net cash used by noncapital financing activities	<u>(632)</u>	<u>(4,369)</u>	<u>(54,966)</u>	<u>(59,967)</u>
<b>Cash Flows from Capital Related Financing Activities</b>				
Payments on loans and bonds	(1,133,723)	-	(21,619)	(1,155,342)
Borrowings for capital improvements	-	-	-	-
Capital contributions	50,766	-	-	50,766
Interest paid on revenue bonds	(265,864)	-	(4,727)	(270,591)
Acquisition and construction of capital assets	(558,026)	-	(118,647)	(676,673)
Net cash used by capital related financing activities	<u>(1,906,847)</u>	<u>-</u>	<u>(144,993)</u>	<u>(2,051,840)</u>
<b>Cash Flows from Investing Activities</b>				
Interest received	1,101	66	52	1,219
Net cash provided by investing activities	<u>1,101</u>	<u>66</u>	<u>52</u>	<u>1,219</u>
Net change in cash and cash equivalents	(539,969)	178,107	(69,425)	(431,287)
Beginning cash and cash equivalents	1,003,082	3,788	81,522	1,088,392
Ending cash and cash equivalents	<u>\$ 463,113</u>	<u>\$ 181,895</u>	<u>\$ 12,097</u>	<u>\$ 657,105</u>
<b>Reconciliation of operating loss</b>				
Operating gain	\$ 1,150,095	\$ 193,594	\$ 84,176	\$ 1,427,865
Adjustments to reconcile operating				
Depreciation and amortization	366,827	-	47,151	413,978
Allowance for doubtful accounts	3,260	1,992	410	5,662
Change in assets and liabilities:				
Accounts receivable	(38,474)	(8,750)	(2,074)	(49,298)
Accounts payable and compensated absences	(125,335)	(1,864)	2,290	(124,909)
Prepays	(12,431)	(2,562)	(1,471)	(16,464)
Customer deposits	22,467	-	-	22,467
Total adjustments	<u>216,314</u>	<u>(11,184)</u>	<u>46,306</u>	<u>251,436</u>
Net cash provided by operating activities	<u>\$ 1,366,409</u>	<u>\$ 182,410</u>	<u>\$ 130,482</u>	<u>\$ 1,679,301</u>

The notes to the financial statements are an integral part of this statement

City of Neptune Beach, Florida  
Statement of Net Assets  
Fiduciary Funds  
September 30, 2012

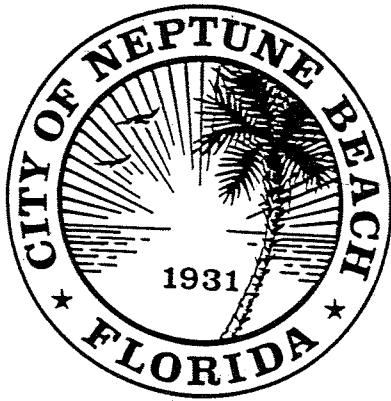
	<u>Police Officers' Plan</u>
<b>ASSETS</b>	
Cash and short-term investments	\$ 84,115
Receivables	
City	11,826
Particiapants	<u>4,322</u>
	<u>16,148</u>
Accrued interest receivable	32,104
Prepaid expenses	2,750
Investments:	
U.S. Government obligations	1,189,716
Corporate bonds	1,407,948
Common equity securities	<u>3,787,768</u>
Total Investments	<u>6,385,432</u>
Total assets	<u><u>\$ 6,520,549</u></u>
<b>NET ASSETS</b>	
Held in trust for pension benefits	<u><u>\$ 6,520,549</u></u>

The notes to the financial statements are an integral part of this statement

City of Neptune Beach, Florida  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund  
September 30, 2012

	<b>Police Officers' Plan</b>
<b>ADDITIONS</b>	
Contributions:	
Employees' contributions	\$ 221,145
Employer's contributions	303,385
State contributions	46,156
Total contributions	<u>570,686</u>
Investment earnings:	
Net appreciation in fair value of investments	855,814
Interest & dividends	180,936
Miscellaneous income	11
Total investment earnings (loss)	<u>1,036,761</u>
Less investment expense	<u>(62,048)</u>
Net investment earnings (loss)	<u>974,713</u>
Total additions	<u>1,545,399</u>
<b>DEDUCTIONS</b>	
Benefits	207,793
Administrative expenses	20,190
Total deductions	<u>227,983</u>
Change in net assets	1,317,416
Net assets - beginning	5,203,133
Net assets - ending	<u><u>\$ 6,520,549</u></u>

The notes to the financial statements are an integral part of this statement



# Notes to Financial Statements

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**City of Neptune Beach, Florida**  
**Notes to the Financial Statements**  
**September 30, 2012**

**A. Summary of Significant Accounting Policies:**

The City of Neptune Beach, Florida (City) was organized under Section 6 of Chapter 15356 Laws of Florida, 1931 and is currently governed as a municipal corporation under the Home Rule Charter of the City, adopted by Laws of Florida Chapter 88-481, effective October 1, 1988. The City operates under an elected mayor-council form of government under the administration of an appointed City Manager and provides the following services as authorized by its charter: Public Safety (Police, Fire, Animal Control and Beach Patrol), Highways and Streets, Water and Sewer, Sanitation, Public Improvements, Planning, Development, and Zoning and General Administrative Services.

The financial statements of the City have been prepared in conformity with United States generally accepted accounting principles (GAAP) as applied to governmental units. The more significant of the City's accounting policies are described below.

**Reporting Entity:**

The accompanying financial statements present the financial position, results of operations and cash flows of the applicable fund types governed by the City Council (City Council) of the City, the reporting entity of government for which the City Council is considered to be financially accountable. Based upon the application of Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, there are no potential component units or related organizations of the City that meet the criteria for inclusion in the City's basic financial statements.

**Basic Financial Statements:**

The government-wide and fund financial statements along with the notes to the financial statements comprise the basic financial statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents information on all of the City's assets and liabilities with difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities demonstrates the degree to which direct expenses of a given function or activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include (1) charges to customers or applicant who purchase, use, or directly benefit from goods, services or privileges provided by a given function or activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary fund financial statements. Revenues are recorded

City of Neptune Beach, Florida  
Notes to the Financial Statements  
September 30, 2012  
(Continued)

**A. Summary of Significant Accounting Policies (continued):**

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued):

when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures related to compensated absences, are recorded only when payment is due.

Taxes, intergovernmental revenue, licenses and permits, charges for services, and investment earnings associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following governmental funds:

Major Governmental Funds:

The General Fund is the City's primary operation fund. It accounts for all financial resources of the general governments, except those required to be accounted for in another fund.

Nonmajor Governmental Fund Types:

Special Revenue Funds – These funds account for specific revenue sources that are restricted by law or administrative action to expenditures for specific purposes. Nonmajor special revenue funds include the Police Education Fund, Community Development Block Grant Fund, Convention Development Tax Fund, Forfeiture Proceeds Fund, Street Improvements Fund, Local Option Gas Tax, Fund, Radio Communications Fund, Better Jacksonville Half-Cent Tax Fund, Holiday Décor Fund, and Cable TV Fund.

Debt Service Funds – These funds account for the resources accumulated and payments made for principal and interest on long-term general debt of governmental funds.

Proprietary Funds – These funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determination of operation income and changes in net assets, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City's proprietary funds are all classified as enterprise funds. The City has presented the following proprietary funds:

Major Proprietary Funds:

The Water and Sewer Fund accounts for the activities of the City's water distribution system, sewage treatment plant, sewage pumping stations and collection systems. The Sanitation Fund accounts for the activities of the City's sanitation and recycling services.

City of Neptune Beach, Florida  
Notes to the Financial Statements  
September 30, 2012  
(Continued)

**A. Summary of Significant Accounting Policies (continued):**

Non-Major Proprietary Funds (continued):

The City's Stormwater Utility Fund is its only nonmajor proprietary fund and it accounts for the operation and maintenance of the stormwater system.

The City has adopted GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. This statement requires proprietary funds to apply all applicable GASB pronouncements as well as those Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure, issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. As also provided by Statements No. 20, the City has elected not to adopt any FASB statements issued after November 30, 1989 unless so directed by GASB.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Fiduciary Fund Types:

Police Officers' Plan Fund – This fund accounts for the activities of the Police Officers' Retirement System Fund, which accumulates resources for pension and disability benefit payments to retired or disabled police

Fund Balance Classifications:

Beginning with this fiscal year, the City implemented GASB Statement No. 54, *Fund Balance Reprting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable Fund Balance - amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted Fund Balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions, or by enabling legislation.

Committed Fund Balance - amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any purpose unless the City takes the same highest level action to remove or change the constraint.

Assigned Fund Balance - amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates authority.

Unassigned Fund Balance - amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

**City of Neptune Beach, Florida**  
**Notes to the Financial Statements**  
**September 30, 2012**  
**(Continued)**

**A. Summary of Significant Accounting Policies (continued):**

Fund Balance Classifications (continued):

When unrestricted resources (committed, assigned and unassigned) are available for use in any governmental fund, it is the City's practice to use committed resources first, then assigned, and then unassigned as needed.

The City Council establishes (and modifies and rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund.. Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purposes (such as the purchase of fixed assets, construction, debt service, or other purposes.

Budgets and Budgetary Accounting:

Annual appropriated budgets are adopted for the General and the following Special Revenue Funds: Police Education, Community Development Block Grant, Convention Development Tax, Forfeiture Proceeds, Street Improvements, Local Option Gas Tax, Radio Communications, Better Jacksonville Half-Cent Tax, Holiday Décor, and Debt Service Funds. The legally adopted budgets are prepared on a basis consistent with GAAP.

The legal level of budgetary control is at the department level. Special revenue funds are treated as departments for budgetary control purposes and are categorized into one function. With the approval of the City Manager, department heads can amend line item expenditures within a department or special revenue fund. Line item transfers must net to zero. All unencumbered appropriations lapse at fiscal year end. Encumbered budget appropriations are carried forward into the next fiscal year's budget.

The adopted budgets are integrated into the accounting system. The Budgetary Comparison Schedule data, as presented in theses financial statements for all funds with annual budgets, compares the expenditures with the final amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule of the General and Special Revenue Funds presents actual expenditures in accordance with the accounting principles generally accepted in the United States on basis consistent with the legally adopted budgets as amended.

The individual accounts that comprise the Water and Sewer Fund, Sanitation Fund, and Stormwater Utility Fund have

Cash and Cash Equivalents:

Cash and cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and have an original maturity of three months or less. The cash and cash equivalents presented on the Statement of Cash Flows – Proprietary Funds are composed of restricted cash and cash equivalents. The City's cash and cash equivalents are considered to be cash on hand and demand deposits.

Investments:

The City has elected to proceed under the Alternative Investment Guidelines as set forth in Section 218.415(17) Florida Statutes. The City may invest any surplus public funds in the following:

- a. The State Board of Administration Local Government Surplus Trust Funds (SBA Investment Pool), or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
- b. Securities and Exchange Commission registered money market funds with the highest credit quality rating form a nationally recognized rating agency;

**City of Neptune Beach, Florida**  
**Notes to the Financial Statements**  
**September 30, 2012**  
**(Continued)**

**A. Summary of Significant Accounting Policies (continued):**

Investments (continued):

- c. Interest bearing time deposits or savings accounts in qualified public depositories,
- d. Direct obligations of the United States Treasury.

Securities listed in paragraph c and d shall be invested to provide sufficient liquidity to pay obligations as they come due.

The Local Government Surplus Funds Trust Fund was created by Act of the Florida Legislature effective October 1, 1977 (Chapter 218, Part IV Florida Statutes), which allowed the State Board of Administration to establish a pooled investment account (SBA Investment Pool). Rules and regulations have been developed to govern the administration of the Local Government Surplus Funds Trust Fund pursuant to Section 218.409, Florida Statutes (Chapter 19-7). The Local Government Surplus Funds Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the governing body has adopted operating procedures consistent with the requirements for a 2a-7 like pool. The fair value of investments held by the City in the SBA Investment Pool is the same as the fair value of the pooled shares. Investments within the Police Officers' Plan Fund made through financial brokers are held with trustees and are stated at fair value as determined in an active market. The City has no investments in foreign securities at September 30, 2012.

Receivables and Interfund Obligations:

Receivables consist of trade receivables, amounts due from other governments, and interest receivable and are recorded net of allowance for doubtful accounts. The City, as of September 30, 2012, has provided an allowance for doubtful accounts due to aged receivables in the proprietary funds that the City has reason to believe will not be collected.

The unbilled portion of Water and Sewer, Sanitation and Stormwater Utility earned revenues accrued at year end is based upon a proration of the October billing cycle.

Outstanding balances between funds at the end of the fiscal year are referred to as either "due to/from other funds" for the current portion of interfund loans or "advances to/from other funds" for the non-current portion. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Restricted Assets:

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the enterprise funds represent cash and cash equivalents set aside for debt service payments, reserve requirements, renewal and replacement expenditures, construction and repayment of deposits to utility customers.

Capital Assets:

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$750 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Where cost could not be determined from the available records, estimated historical costs were used to record the estimated value of the assets. Assets acquired by gift or bequests are recorded at their fair market value at

**City of Neptune Beach, Florida**  
**Notes to the Financial Statements**  
**September 30, 2012**  
**(Continued)**

**A. Summary of Significant Accounting Policies (continued):**

Capital Assets (continued):

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred, if any, during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

General infrastructure assets acquired prior to October 1, 2002, are not reported in the basic financial statements.

General infrastructure assets acquired subsequent to October 1, 2002, are included in the basic financial statements.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Improvements other than buildings	10-40
Infrastructure	10-40
Equipment	5-20

Bond Discounts and Issuance Costs:

Bond discounts, losses and issuance costs for proprietary funds are deferred and amortized over the term of the bonds using the straight-line method. Bond discounts and losses are presented as deferred charges and are shown as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges and reported as

Deferred Revenues:

Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied. On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Long-Term Obligations:

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. In the fund financial statements, governmental fund types recognize premiums and discounts, as well as bond issuance costs during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Compensated Absences:

City employees are entitled to certain compensated absences (personal leave) based on their length of employment. All leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported. The computed proprietary fund financial statements. A liability for these amounts is reported. The computed liability is in accordance with GASB Statement No. 16, Accounting for Compensated

City of Neptune Beach, Florida  
Notes to the Financial Statements  
September 30, 2012  
(Continued)

**A. Summary of Significant Accounting Policies (continued):**

Pension Plans:

The City accounts for its Police Officers' Retirement System (Police Officers' Plan Fund) under GASB Statement No. 25, Financial Reporting for Defined Benefit Pension and Note Disclosures for Defined Contribution Plans, GASB Statement No. 27, Accounting for Pensions by State and Local Governments, and GASB Statement No. 50, Pension Disclosures. These statements require the recording of defined benefit plan investments at market value. The City records pension costs in the period salaries are earned.

General employees are enrolled in a defined contribution 401(a) pension plan. The assets, liabilities, fund equity and operations of this plan are not presented on the City's financial statements as the plan is independently administered.

Net Assets:

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Property Taxes:

The assessment of all properties and the collection of all property taxes are made through the Property Appraiser and Tax Collector of the City of Jacksonville, Florida. General property taxes are recorded when received in cash, which approximates taxes levied, less discounts, for the current fiscal year.

Details of the tax calendar are presented below:

Lien Date	January 1
Levy Date	October 1
Installment payments:	
1st Installment	No later than June 30th
2nd Installment	No later than September 30
3rd Installment	No later than December 31
4th Installment	No later than March 31
Regularly payments:	
Discount periods	November - February
No discount period	March
Delinquent date	April 1

Use of Estimates:

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**B. Cash Deposits and Investments:**

The City maintains a cash and investment pool for all funds. Each fund's portion of this pool is included in the balance sheet account "Equity in pooled cash and cash equivalents." Interest earnings are allocated in accordance with the participating fund's relative percentage of investments.

City of Neptune Beach, Florida  
Notes to the Financial Statements  
September 30, 2012  
(Continued)

**B. Cash Deposits and Investments (continued):**

At September 30, 2012, the cash deposits and investments included the following:

Investments controlled by City:	
SBA Investment Pool	\$ 17,290
Total Investments Controlled by City	<u>17,290</u>
Cash:	
Cash deposits	2,999,068
Certificate of deposit	119,460
Cash on hand	1,600
Total Cash	<u>3,120,128</u>
Total Cash and Investments	<u>\$ 3,137,418</u>

All of the City's deposits are insured by the Federal Deposit Insurance Corporation or collateralized in accordance with Florida Security for Public Deposits Act (Act). Under the Act, every qualified public depository shall deposit with the Treasurer eligible collateral having a market value equal to 50% of the average daily balance for each month that all public deposits are in excess of any applicable deposit insurance. If the public deposits exceed the total Amount of the regulatory capital accounts of a bank or the regulatory net worth of a savings association, the required collateral shall have a market value equal to 125% of the deposits.

Florida Statutes authorize the City to invest in the Local Government Surplus Trust Fund administered by the Florida State Board of Administration (SBA Investment Pool), direct obligations of the United States or agencies thereof, interest bearing time deposits or savings accounts, overnight repurchase agreements, mutual funds, stocks, and bonds.

Risk:

In accordance with GASB Statement No. 40, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them. Credit risk, custodial credit risk, concentration of credit risk, and interest rate risk are discussed in the following paragraphs.

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City, including the Police Officers' Plan Fund, has no investment policy to limit credit risk. The City's rated debt instruments as of September 30, 2012, were rated by Standard & Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using Standard & Poor's rating scale.

	Quality Ratings				
	AAA	AA	A	BBB	Unrated
<u>Debt Investments:</u>					
Investments controlled by the City					
SBA Investment Pool	\$ -	\$ -	\$ -	\$ -	\$ 17,290
Pension Plan Investments:					
U.S. Government	1,062,164	-	-	-	127,552
Corporate bonds	-	148,740	1,208,467	50,741	-
Common equity securities	-	-	-	-	3,787,768

**City of Neptune Beach, Florida**  
**Notes to the Financial Statements**  
**September 30, 2012**  
**(Continued)**

**B. Cash Deposits and Investments (continued):**

Custodial Credit Risk:

Custodial credit risk for investments is the risk that, in the event of a failure of a counterparty, the City will not be able to recover the value of the investment or collateral securities that are in possession of an outside party.

At September 30, 2012 Police Officers' Plan Fund investments totaling \$6,385,432 were uninsured and collateral was held by the pledging bank's trust department and was not in the City's name.

Concentration of Credit Risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. Investments issued or explicitly guaranteed by the United States government and investments in external investment pool are excluded from the disclosure requirement.

The City's Police Officers' Plan Fund had no single investments of more than 5% of the total net assets of the Plan at September 30, 2012..

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by the pension trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

	Investment Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
<u>Investment type:</u>					
Investments controlled by the City					
SBA Investment Pool	\$ 17,290	\$ -	\$ -	\$ -	\$ -
Certificate of Deposit	119,460	119,460			
Total Investments controlled by the City	136,750	119,460	-	-	-
Pension Plan Investments:					
U.S. Government and Agency securities	1,189,716	96,378	458,067	338,707	296,564
Corporate Bonds	1,407,948	75,000	360,280	886,786	85,882
Equity Securities	3,787,768	-	-	-	-
Total Pension Plan Investments	6,385,432	171,378	818,347	1,225,493	382,446
Total Investments	\$ 6,522,182	\$ 290,838	\$ 818,347	\$ 1,225,493	\$ 382,446

City of Neptune Beach, Florida  
Notes to the Financial Statements  
September 30, 2012  
(Continued)

**C. Receivables and Payables:**

Receivables at September 30, 2012 consist of the following:

	<u>General Fund</u>	<u>Water &amp; Sewer</u>	<u>Sanitation Fund</u>	<u>Stormwater Utility Fund</u>	<u>Pension Trust Plan Fund</u>
<u>Receivables:</u>					
Interest	\$ 14	\$ -	\$ -	\$ -	\$ 32,104
Accounts Receivable	-	453,640	152,017	34,663	-
Intergovernmental	201,433	-	-	-	-
Other	-	-	-	-	-
Gross Receivables	<u>201,447</u>	<u>453,640</u>	<u>152,017</u>	<u>34,663</u>	<u>32,104</u>
Allowance	<u>-</u>	<u>(60,431)</u>	<u>(22,803)</u>	<u>(3,466)</u>	<u>-</u>
Net Receivables	<u>\$ 201,447</u>	<u>\$ 393,209</u>	<u>\$ 129,214</u>	<u>\$ 31,197</u>	<u>\$ 32,104</u>
	<u>Nonmajor &amp; Other Funds</u>	<u>Total Funds</u>			
<u>Receivables:</u>					
Interest	\$ -	\$ 32,118			
Accounts Receivable	-	640,320			
Intergovernmental	62,072	263,505			
Other	-	-			
Gross	<u>62,072</u>	<u>935,943</u>			
Allowance	<u>-</u>	<u>(86,700)</u>			
Net	<u>\$ 62,072</u>	<u>\$ 849,243</u>			

Included in accounts receivable are \$264,744 earned but not billed as of September 30, 2012.

Accounts payable and accrued liabilities at September 30, 2012, were as follows:

	<u>Vendors</u>	<u>Employees</u>	<u>Total</u>
Governmental activities:			
General	\$ 73,476	\$ 135,456	\$ 208,932
Nonmajor fund	24,501	11,989	36,490
Total governmental activities	<u>\$ 97,977</u>	<u>\$ 147,445</u>	<u>\$ 245,422</u>
Business-type activities:			
Water & Sewer	\$ 99,310	\$ 46,513	\$ 145,823
Sanitation	74,172	5,211	79,383
Stormwater utility	3,421	3,750	7,171
Total business-type activities	<u>\$ 176,903</u>	<u>\$ 55,474</u>	<u>\$ 232,377</u>

**D. Interfund Transactions:**

At September 30, 2012, the City had the following due to/from other funds:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Governmental Funds:		
General	\$ 222,187	\$ -
Nonmajor governmental	<u>102,973</u>	<u>159,119</u>
Total Governmental Funds	<u>\$ 325,160</u>	<u>\$ 159,119</u>

(continued)

City of Neptune Beach, Florida  
Notes to the Financial Statements  
September 30, 2012  
(Continued)

**D. Interfund Transactions (continued):**

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Proprietary funds:		
Water and sewer	\$ -	\$ 102,973
Sanitation	-	-
Stormwater Utility	-	63,068
	<u>-</u>	<u>166,041</u>
Total Proprietary Funds	<u>-</u>	<u>166,041</u>
Total	<u>\$ 325,160</u>	<u>\$ 325,160</u>

The balance \$325,160 due to the General Fund and Better Jacksonville Half Cent Fund results from loans to Water and Sewer, Sanitation, and Local Option Gas Tax Fund. The amount due from the Water and Sewer Fund began repayment in 2009 with the total repayment scheduled to be complete in 2 more years. The Sanitation Fund repayment will take approximately 1 year and the Local Option Gas Tax Fund repayment is expected to be repaid in 2 years.

Transfers from a fund of resources to the fund through which resources are to be expended are recorded as transfers and are reported as other financing sources (uses) in the governmental funds and as transfers in (out) in the proprietary funds. Following is a summary of interfund transfers for the year ended September 30, 2012:

	<u>Transfers In</u>		<u>Total Transfers (Out)</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	
Governmental funds:			
General	\$ 275,000	\$ -	\$ (275,498)
Nonmajor governmental	-	311,057	(285,559)
Total governmental funds	<u>275,000</u>	<u>311,057</u>	<u>\$ (561,057)</u>
Proprietary funds:			
Stormwater Utility	-	-	(25,000)
Total proprietary funds	<u>-</u>	<u>-</u>	<u>(25,000)</u>
Total transfers in (out)	<u>\$ 275,000</u>	<u>\$ 311,057</u>	<u>\$ (586,057)</u>

Transfers in/out during the fiscal year 2011, are as follows:

- \$265,000 was transferred from the Better Jacksonville Half Cent Tax Fund to the General Fund for debt service expenditures.
- \$11,858 was transferred from the General Fund to the Community Development Block Grant Fund to current year losses
- \$263,640 was transferred from the General Fund to the Debt Service Fund to meet debt service requirements.
- \$25,000 was transferred from the Stormwater Utility Fund to the Local Option Gas Tax Fund to cover current year losses
- \$10,559 was transferred from the Cable TV fund to the Holiday Decor Fund to close out the Cable TV Fund

City of Neptune Beach, Florida  
Notes to the Financial Statements  
September 30, 2012  
(Continued)

**E. Capital Assets:**

Capital asset activity for the fiscal year ended September 30, 2012, is as follows:

	Balance October 1 2011	Increases	Decreases	Balance September 30 2012
Governmental activities:				
Capital assets, not being depreciated				
Construction in progress	\$ 159,739	\$ 132,919	\$ (156,296)	\$ 136,362
Land	37,861	-	-	37,861
Total capital assets not being depreciated	197,600	132,919	(156,296)	174,223
Capital assets, being depreciated				
Buildings and improvements	4,121,666	9,887	-	4,131,553
Improvements other than buildings	2,601,019	165,061 *	-	2,766,080
Equipment	3,029,517	70,514	(180,425)	2,919,606
Total capital assets, being depreciated	9,752,202	245,462	(180,425)	9,817,239
Less accumulated depreciation for -				
Buildings and improvements	(1,070,604)	(117,286)	-	(1,187,890)
Improvements other than buildings	(1,137,395)	(108,947)	-	(1,246,342)
Equipment	(2,452,800)	(190,547)	180,425	(2,462,922)
Total accumulated depreciation	(4,660,799)	(416,780)	180,425	(4,897,154)
Total capital assets, being depreciated, net	5,091,403	(171,318)	-	4,920,085
Governmental activities capital assets, net	<u>\$ 5,289,003</u>	<u>\$ (38,399)</u>	<u>\$ (156,296)</u>	<u>\$ 5,094,308</u>
* - includes transfer of \$156,296 from Construction in progress				
Business-type activities				
Capital assets, not being depreciated				
Construction in progress	\$ 3,008,249	\$ 387,874	\$ (3,395,137)	\$ 986
Total capital assets, not being depreciated	3,008,249	387,874	(3,395,137)	986
Capital assets, being depreciated				
Buildings and improvements	3,285,756	-	-	3,285,756
Improvements other than buildings	14,201,848	3,498,896	-	17,700,744
Equipment	2,739,126	185,040	-	2,924,166
Total capital assets, being depreciated	20,226,730	3,683,936	-	23,910,666
Less accumulated depreciation for -				
Buildings and improvements	(3,285,756)	-	-	(3,285,756)
Improvements other than buildings	(6,739,264)	(161,537)	-	(6,900,801)
Equipment	(2,676,786)	(247,380)	-	(2,924,166)
Total accumulated depreciation	(12,701,806)	(408,917)	-	(13,110,723)
Total capital assets, being depreciated, net	7,524,924	3,275,019	-	10,799,943
Business-type activities capital assets, net	<u>\$ 10,533,173</u>	<u>\$ 3,662,893</u>	<u>\$ (3,395,137)</u>	<u>\$ 10,800,929</u>

(continued)

**City of Neptune Beach, Florida**  
**Notes to the Financial Statements**  
**September 30, 2012**  
**(Continued)**

**E. Capital Assets (continued):**

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government	\$ 25,874
Public safety	179,621
Public works	166,622
Culture and recreation	44,663
	<hr/>
Total depreciation expense - governmental activities	\$ 416,780
	<hr/>
Business-type activities:	
Water and sewer	\$ 361,766
Sanitation	-
Stormwater Utility	47,151
	<hr/>
Total depreciation expense - business type activities	\$ 408,917
	<hr/>

**F. Long-Term Liabilities:**

At September 30, 2012, bonds and loans payable consisted of the following:

	<u>Governmental</u>	<u>Business-type</u>
<b><u>Bonds:</u></b>		
Capital Improvement Revenue Bonds, Series 2003, dated July 31, 2003, due in annual principal installments of \$187,441 to \$255,109 and semi-annual interest installments of \$4,361 to \$38,647 through August 1, 2013, bearing an interest rate of 3.40%	\$ 257,109	\$ -
Water and Sewer Revenue Refunding Bonds, Series 2001, dated August 1, 2001, due in annual principal installments of \$175,000 to \$310,000 through October 1, 2017, bearing interest rates of 3.40% to 4.85%	-	1,340,000
<b><u>Loans:</u></b>		
Drinking Water State Revolving Fund Construction Loan #1 due in semi-annual installments of principal and interest of \$6,350 through August 15, 2021, bearing interest at a rate of 3.52%.	-	97,283
Drinking Water State Revolving Fund Construction Loan #2 due in semi-annual installments of principal and interest of \$59,050 through February 15, 2023, bearing interest at a rate of 3.05%.	-	1,054,040
Clean Water State Revolving Fund Construction Loan due in semi-annual installments of principal and interest of \$142,402 through August 15 2022, bearing interest at a rate of 3.05%.	-	2,438,833
Equipment installment loan, 5 annual payments of \$23,136 including interest at 3.45%, beginning 4/17/2009		22,365

**City of Neptune Beach, Florida**  
**Notes to the Financial Statements**  
**September 30, 2012**  
**(Continued)**

**F. Long-Term Liabilities (continued):**

Infrastructure Surtax Revenue Bonds, Series 2010A dated 1/12/2010 for \$1,700,000, due in semi-annual installments of principal ranging from \$65,000 to \$95,000 with interest at 2.6%, final payment due October 1, 2020	-	1,410,000
Infrastructure Surtax Revenue Bonds, Series 2010B dated 11/12/2010 for \$700,000, payment of \$200,000 made April 1, 2011, balloon payment of \$500,000 due October 1, 2013, interest payable semi-annually at 4.71%	-	150,000
Total	<u>\$ 257,109</u>	<u>\$ 6,512,521</u>

Transactions for the year ended September 30, 2011, are summarized as follows:

	<u>Balance October 1 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30 2012</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Bonds Payable:					
Capital Improvements revenue bonds	\$ 503,671	\$ -	\$ (246,562)	\$ 257,109	\$ 257,109
Total bonds payable	503,671	-	(246,562)	257,109	257,109
Compensated absences	423,712	290,369	(292,292)	421,789	172,649
Governmental activities - Long-term liabilities	<u>\$ 927,383</u>	<u>\$ 290,369</u>	<u>\$ (538,854)</u>	<u>\$ 678,898</u>	<u>\$ 429,758</u>
<b>Business-type Activities:</b>					
Bonds payable:					
Revenue refunding bonds	\$ 1,600,000	\$ -	\$ (260,000)	\$ 1,340,000	\$ 270,000
Infrastructure Rev. Bonds, 2010(A)	1,635,000	-	(225,000)	1,410,000	160,000
Infrastructure Rev. Bonds, 2010(B)	500,000	-	(350,000)	150,000	150,000
Loans payable:					
Drinking water loan #1	106,280	-	(8,997)	97,283	9,359
Drinking water loan #2	1,138,064	-	(84,024)	1,054,040	86,606
Clean water loan	2,644,535	-	(205,702)	2,438,833	212,024
Equipment installment note	43,984	-	(21,619)	22,365	22,365
Less deferred amounts:					
For issuance discounts	(11,777)	-	1,963	(9,814)	-
Loss on bond refunding	(53,183)	-	8,864	(44,319)	-
Total bonds and loans payable	7,602,903	-	(1,144,515)	6,458,388	910,354
Compensated absences	101,738	44,193	(37,700)	108,231	27,536
Business-type activities - Long-term liabilities	<u>\$ 7,704,641</u>	<u>\$ 44,193</u>	<u>\$ (1,182,215)</u>	<u>\$ 6,566,619</u>	<u>\$ 937,890</u>

The annual requirements to amortize the bonds and loans payable outstanding as of September 30, 2012, are as follows:

Governmental Activities

**Fiscal Year Ending  
September 30  
2013**

<b>Capital Improvements Bonds, Series 2003</b>		
<u>Principal</u>	<u>Interest</u>	<u>Total</u>
257,109	4,361	261,470
<u>\$ 257,109</u>	<u>\$ 4,361</u>	<u>\$ 261,470</u>

(continued)

City of Neptune Beach, Florida  
Notes to the Financial Statements  
September 30, 2012  
(Continued)

**F. Long-Term Liabilities (continued):**

The Capital Improvement Revenue Bonds, Series 2003 were issued on July 31, 2003, in the amount of \$2,200,000 to finance the construction of the new operations and maintenance facility. Debt service requirements for the 2003 Capital Improvement Revenue Bonds are met by the General Fund.

Business-type activities:

Fiscal Year Ending September 30	Water and Sewer Revenue Refunding Bond: Series 2001		Drinking Water State Revolving Fund Construction Loan #1	
	Principal	Interest	Principal	Interest
2013	\$ 270,000	\$ 62,572	\$ 9,359	\$ 3,341
2014	285,000	50,422	9,691	3,009
2015	300,000	37,312	10,036	2,665
2016	310,000	23,212	10,391	2,308
2017	175,000	8,489	10,761	1,939
2018-2022	-	-	47,045	3,798
	<u>\$ 1,340,000</u>	<u>\$ 182,007</u>	<u>\$ 97,283</u>	<u>\$ 17,060</u>

Fiscal Year Ending September 30	Drinking Water State Revolving Fund Construction Loan #2		Equipment Installment Note	
	Principal	Interest	Principal	Interest
2013	\$ 86,607	\$ 31,493	\$ 22,365	\$ 771
2014	89,269	28,830	-	-
2015	92,013	26,088	-	-
2016	94,839	23,260	-	-
2017	97,754	20,345	-	-
2018-2022	535,722	54,774	-	-
2023-2027	57,836	882	-	-
	<u>\$ 1,054,040</u>	<u>\$ 185,672</u>	<u>\$ 22,365</u>	<u>\$ 771</u>

Fiscal Year Ending September 30	Clean Water State Revolving Fund Construction Loan		Infrastructure Surtax Revenue Bonds 2010A	
	Principal	Interest	Principal	Interest
2013	\$ 212,023	\$ 72,780	\$ 160,000	\$ 36,442
2014	218,539	66,264	165,000	32,120
2015	225,256	59,547	170,000	27,731
2016	232,178	52,625	175,000	23,142
2017	239,314	151,605	180,000	26,201
2018-2022	1,311,523	112,500	560,000	164,122
	<u>\$ 2,438,833</u>	<u>\$ 515,321</u>	<u>\$ 1,410,000</u>	<u>\$ 309,758</u>

City of Neptune Beach, Florida  
Notes to the Financial Statements  
September 30, 2012  
(Continued)

**F. Long-Term Liabilities (continued):**

Fiscal Year Ending September 30	Infrastructure Surtax Revenue Bonds 2010B		Business-type Activities Totals	
	Principal	Interest	Principals	Interests
2013	\$ 150,000	\$ -	\$ 910,354	\$ 207,399
2014	-	-	767,499	180,645
2015	-	-	797,305	153,343
2016	-	-	822,408	124,547
2017	-	-	702,829	208,579
2018-2022	-	-	2,454,290	335,194
2019-2023	-	-	57,836	882
	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ 6,512,521</u>	<u>\$ 1,210,589</u>

At August 2001, the City issued Water and Sewer Revenue Refunding Bonds, Series 2001 (Revenue Refunding Bonds, Series 2001). The Revenue Refunding Bonds, Series 2001 net proceeds were used to refund the Series 1992 Water and Sewer Revenue Refunding Bonds. The Revenue Refunding Bonds, Series 2001 are payable solely from the net revenues of the water and sewer systems.

The Revenue Refunding Bonds, Series 2001 maturing on or after October 1, 2012, are subject to optional redemption by the City prior to maturity in whole on or After October 1, 2011, or in part, in inverse order of their maturity at a redemption price (expressed as a percentage of principal amount) as set forth in the following table, together with accrued interest to the redemption date.

<u>Call Date</u>	<u>Call Rate</u>
10/01/2001 to 9/30/2012	101%
10/01/2012 and thereafter	100%

The final draw on the water construction project #1, which was funded by Drinking Water State Revolving Fund Construction Loan #1, was received on December 3, 2001. The full amount of the loan was \$174,183 and was used for water system project construction. Revenues of the Water and Sewer Fund will repay this obligation.

On May 7, 2001, the City was approved for a Drinking Water State Revolving Fund Construction Loan #2 for water construction project #2. The full amount of the loan was \$1,740,925 and was used for water system project construction. Revenues of the Water and Sewer Fund will repay this obligation.

On January 4, 1999, the City was approved for a Clean Water State Revolving Fund Construction Loan for sewer project construction. The full amount of the loan was \$4,428,579 and was used for sewer project construction. Revenues of the Water and Sewer Fund will repay this obligation.

On November 12, 2010, the City issued Infrastructure Surtax Revenue Bonds Series A for \$1,700,000 and Series B for \$700,000. The proceeds of the bond issue are to improve the sewage treatment plant and to replace in-ground infrastructure of the City's water and sewer utility system. Revenues of the Water and Sewer Fund will repay these bonds.

**City of Neptune Beach, Florida**  
**Notes to the Financial Statements**  
**September 30, 2012**  
**(Continued)**

**G. Employee Benefits**

Police Officers' Retirement System

The City Police Officers' Retirement System (Police Officers' Plan Fund), a single-employer contributory defined benefit pension plan, was established pursuant to City Ordinance 1997-10, adopted September 2, 1997, by the City Council. Members of the Police Officers' Plan Fund include full-time state certified police officers. The funding method and determination of benefits payable are provided in various acts of the Florida legislature (Act), which created funds, including subsequent amendments, thereto. The statutes provide, in general, that funds are to be accumulated from employee contributions, City contributions, state appropriations and income from investment of accumulated funds. The Act also provides; should the accumulated funds at any time be insufficient to meet and pay the benefits due, the City shall supplement the Police Officers' Plan Fund by an appropriation from current funds or from any revenue which may lawfully be used for said purposes in an amount sufficient to make up the deficiency. The Police Officers' Plan Fund is administered by a five member Board of Trustees. Investments are reported at fair value. The Police Officers' Plan Fund does not issue a stand-alone financial report.

The Police Officers' Plan Fund provides pension, death and disability benefits to its members. As stipulated by City ordinance, authority to establish and amend benefit provisions of the Police Officers' Plan Fund along with the authority to provide for cost of living adjustments rests with the City Council.

Police employees attaining the earlier of the age of 55 and 10 years of credited service or 25 years of credited service, are entitled to a retirement benefit equal to 2.75% times years of credited service times average final compensation (as defined by the Police Officers' Plan Fund). Employees who have attained age 50 and have completed 10 years of service are eligible for early retirement and may elect actuarially reduced benefits. Active employees who become disabled receive accrued benefits, but not less than 42% of average monthly earnings (service incurred disability). Employees who become disabled from a non-service incurrence must have ten years credited service to receive benefits. The benefits are payable for life or until full recovery is determined by the Board of Trustees. If an employee is terminated before completion of 10 years of continuous service, employee contributions, without interest, are refunded. If an employee terminates his employment either voluntarily or by lawful discharge after the completion of the least ten years of continuous server, but before becoming eligible for retirement under the Police Officers' Plan Fund, the employee is entitled to a deferred vested benefit.

The deferred vested benefit is based on monthly earnings and continuous service as of the termination date. There are no automatic or ad hoc post-retirement benefit increases. Current membership in the Police Officers' Plan Fund as of September 30, 2012, is as follows:

	<u>Police</u>
Retirees and Beneficiaries:	
Currently receiving benefits	7
Vested deferred	3
Drop plan	2
Active employees:	
Fully-vested	9
Non-vested	7
	<hr/>
Total	28
	<hr/>

Funding Policy

Per City ordinances, Police employees of the City are required to contribute 8% of their annual compensation to the Police Officers' Plan Fund. The payments are deducted from the employees' wages and remitted by the City to the Police Officers' Plan Fund at month end. The City makes actuarially determined contributions to the Plan on a periodic basis.

City of Neptune Beach, Florida  
Notes to the Financial Statements  
September 30, 2012  
(Continued)

**G. Employee Benefits (Continued)**

Funding Policy (continued)

In addition, the Police Officers' Plan Fund receives a distribution of casualty premium tax monies from the State, pursuant to State statutes. Administrative costs are funded by contributions made to the Police Officers' Plan Fund.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation.

Actuarially Determined Contribution (A)	\$ 328,314
Interest on net pension asset	(4,754)
Adjustment to (A)	7,086
Annual Pension Cost (APC)	330,646
Contributions made	(328,314)
Increase in net pension obligation	2,332
Net pension asset, beginning of year	(59,426)
Net pension asset, end of year	<u>\$ (57,094)</u>

The following is the funded status information for the plan as of October 1, 2012, the most recent actuarial valuation date:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL) (2)-(1)	Funded Ratio (1)/(2)	Covered Payroll	UAAL as a % of covered payroll [(2)-(1)/(5)]
October 1, 2012	\$ 6,249,702	\$ 8,219,133	\$ 1,969,431	76.04%	\$ 1,162,572	169.40%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
9/30/2012	330,646	99.29%	57,094
9/30/2011	301,259	98.73%	59,426
9/30/2010	275,139	98.59%	63,260

Actuarial Methods and Significant Assumptions

Actuarial valuation date	10/1/2012
Actuarial cost method	Entry Age Normal
Amortization method	Level as a percent of payroll, closed

City of Neptune Beach, Florida  
Notes to the Financial Statements  
September 30, 2012  
(Continued)

**G. Employee Benefits (Continued)**

Actuarial Methods and Significant Assumptions (continued)

Remaining amortization period	22 years as of 10/1/2012
Asset valuation method	4-year smoothed market value
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases (including inflation at 3%)	6.50%
Cost of living adjustments	0.00%

401 (a) Money Purchase Plan

The City offers its general employees a single employer Defined Contribution Plan (Defined Plan) created in accordance with Internal Revenue Code Section 401(a). The Defined Plan was established as of March 7, 1994, by adoption of the City Council through Ordinance No. 1994-4. The Defined Plan, available to all full time employees other than police, provides for an individual investment account. The Defined Plan is administered by the IMCA Retirement Corporation. The Defined Plan does not require a mandatory contribution from participants. The City is obligated to contribute 7% of gross pay for employees with less than ten years of service. Participants with at least ten years of service may elect to contribute up to 9% of gross pay, which the City is required to match. Employees are 100% vested in their personal contributions and receive 100% of investment earnings earned thereon. At September 30, 2012, 46 employees were participating in the Defined Plan.

Employees vest in the City's contribution and the related investment earnings, based on years of service as follows:

<u>Years of Service</u>	<u>Vesting Percentage</u>
Less than one	0%
One	20%
Two	40%
Three	60%
Four	80%
Five and more	100%

Employees are eligible to participate in the Defined Plan after they have been employed for six months. The minimum age for retirement withdrawals is 55. In addition, withdrawals are permitted upon termination, disability or death of the participant.

Payroll for covered employees	\$ 2,520,157
Total City payroll	3,894,072
Employer contributions required and actually made - 7% of covered payroll	176,411

The City has no fiduciary responsibility over the Defined Plan and does not serve in an administrative capacity or give investment advice to the participants.

Other Post Employment Benefits (OPEB)

Pursuant to Section 112.0801 of the Florida Statutes, the City is required to permit participation in the single-employer health insurance program (the Plan) by retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active participants. The Plan is not an entity unto itself and therefore has no separately issued financial statements.

City of Neptune Beach, Florida  
Notes to the Financial Statements  
September 30, 2012  
(Continued)

**G. Employee Benefits (Continued)**

Other Post Employment Benefits (OPEB) (continued)

Based on Governmental Accounting Standards (GASB) approval of Statement Nos. 43 and 45 which set forth guidelines and an implementation timetable for reporting and disclosure of OPEB, the City had an actuary calculate future funding requirements using an appropriate actuarial cost method. The valuation was performed as of September 30, 2010 and covers subsidies for insurance benefits. The City has elected to implement the provisions of GASB Statement No. 45 prospectively. The City's annual OPEB cost for the Plan is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The projected unit credit cost method was used to determine all liabilities, with the liability for each active employee assumed to accrue over the working lifetime based on elapsed time from the date of hire until retirement.

Plan Description - The City provides post-employment benefits to all eligible individuals including lifetime medical, dental and life insurance coverage. Eligible individuals include all employees of the City who retire from the City and are participating in the City's medical program at the time of retirement. Under the medical coverage, eligible individuals also include spouses. Police members are eligible for normal retirement after attaining age 55 with 10 years of service or at any age with 25 years of service. Early retirement may be take at anytime after attaining age 50 with 10 years of service. Non-police members are eligible for normal retirement after attaining age 55 with 5 years of service.

Funding Policy - The City Council is authorized to establish benefit levels and approve actuarial assumptions used in the determination of contribution levels. The City Council establishes the contributions requirements of plan members and the City. These contributions are neither mandated nor guaranteed. The retiree contributes the premium cost each month. Spouses are also eligible for medical coverage although the retiree pays the premium cost. Retirees must pay a monthly premium as determined by the insurance carrier. The premium varies depending on whether the retiree elects single or single plus spouse. Currently, the City's subsidy to OPEB benefits is unfunded. There are no separate Trust Funds or equivalent arrangements into which the City makes contributions to advance-fund the OPEB obligations, as it does for its pension plans. The City's cost of the OPEB benefits, funded on a pay-as-you-go basis, was \$42,900 for the year ended September 30, 2012. The ultimate implicit and explicit subsidies which are provided over time are financed directly by the general assets of the City, which are invested in short-term fixed income instruments according to its current investment policy. The City selected an interest discount rate of 4.0% per annum, which is the long range expected return on such short term fixed income instruments, to calculate present values and costs of the OPEB. This is consistent with GASB Statement No. 45 guidance. Significant actuarial assumptions and the methods used to estimate the OPEB liability are as follows.

Valuation date	September 30, 2010
Actuarial cost method	Entry Age Normal Cost
Amortization method	Level Dollar Payment
Amortization period	Up to 30 years
Assumed rate of return on investments	4.0%

Assumed cost trend rates:

	<u>Percent Increase</u>
Medical trend	to 5%
Dental Trend	5%
General inflation	2.5%

Actuarial Methods - The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

City of Neptune Beach, Florida  
Notes to the Financial Statements  
September 30, 2012  
(Continued)

**G. Employee Benefits (Continued)**

Other Post Employment Benefits (OPEB) (continued)

Actuarial Methods (continued) - Projection of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and Plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and Plan members to that point. Actuarial calculations reflect a long-term perspective and the methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize the actuarial liabilities (or funding excess) over a period not to exceed 30 years. The City's annual OPEB cost for the fiscal year ended September 30, 2012 was \$42,900.

The City's annual OPEB cost and the net OPEB obligation for the fiscal year ended September 30, 2012 is as follows:

Annual required City contribution (ARC)	\$ 43,000
Interest on Plan obligation	2,000
Adjustment to ARC	<u>(2,100)</u>
Annual Plan retiree costs	42,900
Contributions made	<u>(15,300)</u>
Increase in Plan obligation	27,600
Plan obligation beginning of year	50,400
Plan obligation end of year	<u><u>\$ 78,000</u></u>

The City's percentage of annual OPEB costs contributed to the Plan, and the net OPEB obligation for the fiscal year ended September 30, 2012 is as follows:

<u>Year Ending September 30</u>	<u>Annual OPEB Costs</u>	<u>City Contribution</u>	<u>Percentage of Annual OPEB Costs Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 42,900	\$ 15,300	35%	\$ 78,000
2011	\$ 41,100	\$ 12,900	31%	\$ 50,400
2010	\$ 39,500	\$ 17,300	44%	\$ 22,200

The 2012 contribution represented 35% of the annual required contribution. The actuarial valuation for the Plan was done as of September 30, 2010. As of September 30, 2010, the most recent actuarial valuation, the Plan was unfunded. The actuarial accrued liability for benefits was \$486,300 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$486,300. The covered payroll was \$3,064,700, and the ratio of the UAAL to the covered payroll was 15.9%.

The Schedule of Funding Progress, presented as Required Supplementary Information immediately following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

City of Neptune Beach, Florida  
Notes to the Financial Statements  
September 30, 2012  
(Continued)

**H. Deferred Compensation Plan:**

The City maintains for its employees a deferred compensation plan (Deferred Comp Plan) under provisions of the Internal Revenue Code Section 457. The Deferred Comp Plan, available to all fulltime employees, allows participants to defer a portion of their salary until future years. Deferred Comp Plan assets are held in trust for the exclusive benefit of participants and their beneficiaries. The City has very little administrative involvement, performs no investing function, and has no fiduciary responsibility for the Deferred Comp Plan. All amounts of compensation deferred under the Deferred Comp Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants and are not subject to claims of the City's creditors. Accordingly, these Deferred Comp Plan assets are not reported as a part of these financial statements.

**I. Interlocal Agreement**

In 1985, pursuant to an interlocal agreement authorized by Florida Statutes Section 163.01, the City joined with the City of Jacksonville Beach and the City of Atlantic Beach (Joint Venture) to construct and operate outfall lines and disposal facilities, together with all the lands, right-of-ways, easements, and other entitlements necessary for the construction and use thereof.

The construction of the outfall lines and disposal facilities was funded by the municipalities in the following proportions:

Atlantic Beach	33.06%
Jacksonville Beach	55.78%
Neptune Beach	11.16%
Total	100.00%

The City of Atlantic Beach provides all accounting and purchasing services for the Joint Venture. Repair and maintenance of the outfall lines and disposal of the facilities is shared by the participation municipalities in the percentages noted above. For the year ended September 30, 2012, the Joint Venture did not incur any expense for repairs or maintenance. During fiscal year 2012, the City made no contributions to the Joint Venture. The Joint Venture has no debt outstanding on applicable financial statements as of September 30, 2012.

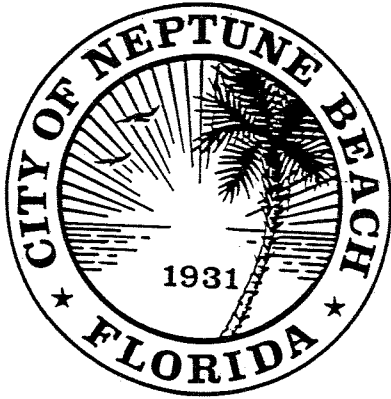
**J. Risk Management**

The City is exposed to various risks of loss related to general/professional liability, automobile liability, property damage and workers' compensation. The City purchases commercial insurance with various deductibles for different types of losses. There were no claims paid that exceeded coverage during the last three fiscal years.

The City is insured by Governmental Risk Insurance Trust (GRIT), to cover the risks of loss related to workers' compensation. The City pays GRIT premiums based on appropriate classifications and rates. The total coverage provided is \$1,000,000 bodily injury by accident, per occurrence; \$1,000,000 bodily injury by disease, per occurrence; and \$1,000,000 bodily injury by accident, injury by disease aggregate limit. There were no claims paid that exceeded coverage in the past three fiscal years.

**K. Subsequent Events**

Subsequent events have been evaluated by management through March 28, 2013, the date the financial statements were available to be issued.



# **Required Supplementary Information**

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(Unaudited)

Annual Financial Report

**City of Neptune Beach, Florida**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended September 30, 2012**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance With</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
<b>REVENUES</b>				
Taxes	\$ 2,466,216	\$ 2,436,216	2,427,318	\$ (8,898)
Franchise fees	293,200	303,200	314,595	11,395
Charges for services	10,425	10,425	9,076	(1,349)
Licenses and permits	150,965	150,965	166,398	15,433
Intergovernmental	1,073,120	1,098,120	1,104,471	6,351
Fines and forfeitures	59,700	59,700	47,817	(11,883)
Rentals	84,475	84,475	88,487	4,012
Investment Income	18,050	13,050	5,390	(7,660)
Grants and donations	25,565	141,240	247,400	106,160
Miscellaneous	20,500	20,500	86,154	65,654
Total revenues	<u>4,202,216</u>	<u>4,317,891</u>	<u>4,497,106</u>	<u>179,215</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Mayor and council	30,439	30,439	29,488	951
City manager	98,756	98,756	92,385	6,371
Finance department	112,695	112,695	103,012	9,683
City attorney	73,600	73,600	74,738	(1,138)
Building department	224,660	224,660	217,376	7,284
City clerk	149,456	149,456	137,194	12,262
Non-departmental	153,208	268,883	277,049	(8,166)
Total general government	<u>842,814</u>	<u>958,489</u>	<u>931,242</u>	<u>27,247</u>
Public safety:				
Police department	2,585,755	2,677,755	2,690,224	(12,469)
Animal control	67,990	67,990	39,656	28,334
Total public safety	<u>2,653,745</u>	<u>2,745,745</u>	<u>2,729,880</u>	<u>15,865</u>
Public works:				
Street department	462,671	462,671	468,561	(5,890)
Total public works	<u>462,671</u>	<u>462,671</u>	<u>468,561</u>	<u>(5,890)</u>
Culture and recreation:				
Lifeguards/Beach clean up	240,080	240,080	207,646	32,434
Total culture and recreation	<u>240,080</u>	<u>240,080</u>	<u>207,646</u>	<u>32,434</u>
Total expenditures	<u>4,199,310</u>	<u>4,406,985</u>	<u>4,337,329</u>	<u>69,656</u>
Excess of revenues over expenditures	2,906	(89,094)	159,777	248,871
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	275,000	275,000	275,000	-
Transfers out	(276,858)	(276,858)	(275,498)	1,360
Total other financing sources (uses)	<u>(1,858)</u>	<u>(1,858)</u>	<u>(498)</u>	<u>1,360</u>
Net change in fund balance	1,048	(90,952)	159,279	250,231
Fund balances, beginning	1,986,228	1,986,228	1,986,228	-
Fund balances, ending	<u>\$ 1,987,276</u>	<u>\$ 1,895,276</u>	<u>\$ 2,145,507</u>	<u>\$ 250,231</u>

The notes to the Budget Comparison Schedule are an integral part of this schedule

City of Neptune Beach, Florida  
Notes to the Budgetary Comparison Schedule  
General Fund  
For the Year Ended September 30, 2012

**A. Budgetary Information:**

The budget is prepared on a basis consistent with GAAP. The City maintains the legal level of budgetary control at the department level in the General Fund and at the fund level for all other funds. Total expenditures for each fund may not exceed appropriations without Council approval.

City of Neptune Beach, Florida  
Schedule of Funding Progress  
Year Ended September 30, 2012

**Police Officers' Plan Fund**

Actuarial Valuation Date October 1	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ration (a-b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
2012	\$ 6,249,702	\$ 8,219,133	\$ 1,969,431	76.04%	\$ 1,162,572	169.40%
2011	5,379,836	7,497,492	2,117,656	71.76%	1,135,648	186.47%
2010	5,357,612	7,197,966	1,840,354	74.43%	1,121,230	164.14%
2009	5,188,868	7,019,099	1,830,231	73.92%	1,162,520	157.44%
2008	4,983,373	6,635,029	1,651,567	75.11%	1,210,844	136.41%
2007	4,602,674	6,092,628	1,489,954	75.54%	1,105,856	134.73%
2006	4,136,121	5,707,130	1,571,009	72.47%	1,027,757	152.86%
2005	3,732,051	5,351,393	1,619,342	69.74%	993,180	163.05%

For information regarding contribution percentage rates, assumptions, amortization method, etc. - See Note G.

**Other Post Employment Benefits**

Actuarial Valuation Date October 1	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ration (a-b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
2012	-	536,800	536,800	0.00%	3,064,700	17.5%
2011	-	508,500	508,500	0.00%	3,064,700	16.6%
2010	-	486,300	486,300	0.00%	3,064,700	15.9%

City of Neptune Beach, Florida  
Schedule of Contributions from Employer and Other Contributing Entities  
September 30, 2012

**Police Officers' Plan Fund**

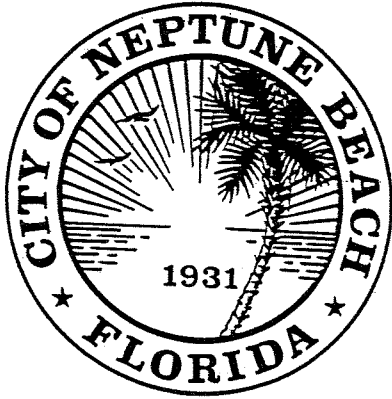
<u>Year Ended September 30</u>	<u>Annual Required Contribution</u>	<u>City Contributions</u>	<u>State Contributions</u>	<u>Percentage Contributed</u>
2012	\$ 328,314	\$ 301,422	\$ 26,892	100.00%
2011	297,426	270,533	26,892	* 100.00%
2010	271,246	244,354	26,892	* 100.00%
2009	233,932	214,398	26,892	* 103.15%
2008	218,507	193,187	26,892	* 100.72%
2007	212,811	** 189,531	26,892	* 101.70%
2006	196,409	169,649	26,892	* 100.07%
2005	249,701	232,865	26,892	* 104.03%

\* "Frozen" per Chapter 185, F.S., as amended

\*\* - includes additional one-time City required contribution of \$2,794

**Other Post-Employment Benefits**

<u>Year Ended September 30</u>	<u>Annual Required Contribution</u>	<u>City Contributions</u>	<u>Percentage Contributed</u>
2012	\$ 42,900	\$ 15,300	35.7%
2011	41,100	12,900	31.4%
2010	39,500	17,300	43.8%



# **Combining and Individual Fund Statements And Schedules**

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Annual Financial Report

**City of Neptune Beach, Florida**  
**Description of Nonmajor Governmental Funds**  
**September 30, 2012**

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

**Police Education Fund**

This fund accounts for revenues derived from county court costs. Expenditures are used to provided criminal justice education degree programs and training courses for police department personnel.

**Community Development Block Grant Fund**

This fund accounts for federal grants through the Jacksonville Entitlement program, which provides funding for community development and improvements for qualified populations within the City.

**Convention Development Tax Fund**

This fund is used to account for funds received from the levy of the local tourist development tax, which are used to promote convention and tourist development. By special act of the legislature, it can also be used for capital outlay in support of lifeguards and parks.

**Forfeiture Proceeds Fund**

This fund accounts for revenue derived from confiscated property and cash. Proceeds are used to augment police activities.

**Street Improvement Fund**

This fund accounts for the 8th Cent Gasoline Tax. The revenue is restricted per *Florida Statutes* and may only be used for street construction and paving.

**Local Option Gas Tax Fund**

This fund accounts for the City's share of county gas tax revenues. Funds may be used to support capital outlay an maintenance for local roads and drainage systems.

**Radio Communications Fund**

This fund accounts for a portion of the revenues obtained from traffic violations. Expenditures are used to enhance public safety communications and automation.

**Better Jacksonville Half Cent Tax Fund**

This fund accounts for the City's share of revenue obtained from the Better Jacksonville Half Cent Sales Surtax. Expenditures are used for projects to benefit all residents with respect to growth management, road improvements and construction, environmental protection and preservation, and public facilities.

**City of Neptune Beach, Florida**  
**Description of Nonmajor Governmental Funds**  
**September 30, 2012**  
**(continued)**

**Holiday Décor Fund**

This fund accounts for donations received from residents to be used for holiday decorations.

**Cable TV Fund**

This fund accounts for the annual sponsorship donation per the cable franchise agreement with Comcast. Funds are used to assist the City in providing activities and functions that benefit the residents and organizations within the City, which serve a public purpose. The Fund was closed at the end of the year.

**Debt Service Fund**

**Capital Improvement Revenue Bonds,  
Series 2003 Debt Service Fund**

This fund records principal and interest payments on the Capital Improvement Revenue Bonds Series 2003. Revenue sources include transfers from the General Fund.

City of Neptune Beach, Florida  
Combining Balance Sheet  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2012

	Special Revenue Funds						
	Police Education Fund	Community Development Block Grant Fund	Convention Development Tax Fund	Forfeitures Proceeds Fund	Street Improvements Fund	Local Options Gas Tax Fund	Radio Commun- ication Fund
<b>ASSETS</b>							
Equity in pooled cash and cash equivalents	\$ 4	\$ 5,311	\$ 68,216	\$ 31,759	\$ 161,030	\$ -	\$ 9,306
Prepaid expenses	-	668	-	-	-	1,181	-
Due from other funds	-	-	-	-	-	-	-
Due from other governments	174	-	5,225	-	-	22,058	596
Total assets	<u>\$ 178</u>	<u>\$ 5,979</u>	<u>\$ 73,441</u>	<u>\$ 31,759</u>	<u>\$ 161,030</u>	<u>\$ 23,239</u>	<u>\$ 9,902</u>
<b>LIABILITIES</b>							
Accounts payable and accrued liabilities	\$ 1,848	\$ 16,064	\$ 2	\$ 192	\$ 7,455	\$ 9,386	\$ 1,543
Due to other funds	-	-	-	-	-	159,119	-
Total liabilities	<u>\$ 1,848</u>	<u>\$ 16,064</u>	<u>\$ 2</u>	<u>\$ 192</u>	<u>\$ 7,455</u>	<u>\$ 168,505</u>	<u>\$ 1,543</u>
<b>FUND BALANCES</b>							
Restricted for:							
Public Safety	(1,670)	-	-	-	-	-	8,359
Roads	-	-	-	-	153,575	-	-
Other purposes	-	(10,085)	73,439	-	-	-	-
Committed for:	-	-	-	-	-	-	-
Public safety	-	-	-	31,567	-	-	-
Assigned for:							
Public events and purposes	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	(145,266)	-
Total fund balances	<u>(1,670)</u>	<u>(10,085)</u>	<u>73,439</u>	<u>31,567</u>	<u>153,575</u>	<u>(145,266)</u>	<u>8,359</u>
Total liabilities and fund balances	<u>\$ 178</u>	<u>\$ 5,979</u>	<u>\$ 73,441</u>	<u>\$ 31,759</u>	<u>\$ 161,030</u>	<u>\$ 23,239</u>	<u>\$ 9,902</u>

City of Neptune Beach, Florida  
Combining Balance Sheet  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2012

	Better Jacksonville Half Cent Tax Fund	Holiday Décor Fund	Cable TV Fund	Total	Capital Improvement Bond Series 2003	Total Nonmajor Governmental Funds
<b>ASSETS</b>						
Equity in pooled cash and cash equivalents	\$ 274,921	\$ 10,637	\$ -	\$ 561,184	\$ -	\$ 561,184
Prepaid expenses	-	-	-	1,849	-	1,849
Due from other funds	102,973	-	-	102,973	-	102,973
Due from other governments	34,019	-	-	62,072	-	62,072
Total assets	<u>\$ 411,913</u>	<u>\$ 10,637</u>	<u>\$ -</u>	<u>\$ 728,078</u>	<u>\$ -</u>	<u>\$ 728,078</u>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 36,490	\$ -	\$ 36,490
Due to other funds	-	-	-	159,119	-	159,119
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>195,609</u>	<u>-</u>	<u>195,609</u>
<b>FUND BALANCES</b>						
Restricted for:						
Public safety	-	-	-	6,689	-	6,689
Roads	205,957	-	-	359,532	-	359,532
Other purposes	205,956	-	-	269,310	-	269,310
Committed for:						
Public safety	-	-	-	31,567	-	31,567
Assigned for:						
Public events and purposes	-	10,637	-	10,637	-	10,637
Unassigned	-	-	-	(145,266)	-	(145,266)
Total fund balances	<u>411,913</u>	<u>10,637</u>	<u>-</u>	<u>532,469</u>	<u>-</u>	<u>532,469</u>
Total liabilities and fund balances	<u>\$ 411,913</u>	<u>\$ 10,637</u>	<u>\$ -</u>	<u>\$ 728,078</u>	<u>\$ -</u>	<u>\$ 728,078</u>

City of Neptune Beach, Florida  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2012

	Special Revenue Funds						
	Police Education Fund	Community Development Block Grant Fund	Convention Development Tax Fund	Forfeitures Proceeds Fund	Street Improvements Fund	Local Options Gas Tax Fund	Radio Commun- ication Fund
<b>REVENUES</b>							
Taxes	\$ -	\$ -	\$ 25,321	\$ -	\$ 59,091	\$ 237,194	\$ -
Fines and forfeitures	2,306	-	-	6,533	-	-	7,249
Investment Income	6	-	60	47	120	-	13
Grants and donations	-	59,850	-	-	-	-	-
Miscellaneous	-	800	-	-	-	-	-
Total revenues	<u>2,312</u>	<u>60,650</u>	<u>25,381</u>	<u>6,580</u>	<u>59,211</u>	<u>237,194</u>	<u>7,262</u>
<b>EXPENDITURES</b>							
Current:							
Public safety	18,251	-	-	12,573	-	265,243	18,155
Public works	-	-	10,636	-	25,480	-	-
Culture and recreation	-	91,852	-	-	-	-	-
Debt Services:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	22,000	-	-	-
Total expenditures	<u>18,251</u>	<u>91,852</u>	<u>10,636</u>	<u>34,573</u>	<u>25,480</u>	<u>265,243</u>	<u>18,155</u>
Excess (deficiency) of revenues	<u>(15,939)</u>	<u>(31,202)</u>	<u>14,745</u>	<u>(27,993)</u>	<u>33,731</u>	<u>(28,049)</u>	<u>(10,893)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	-	11,858	-	-	-	25,000	-
Transfers out	-	-	(10,000)	-	-	-	-
Total other financing sources (uses)	-	<u>11,858</u>	<u>(10,000)</u>	-	-	<u>25,000</u>	-
Net changes in fund balances	<u>(15,939)</u>	<u>(19,344)</u>	<u>4,745</u>	<u>(27,993)</u>	<u>33,731</u>	<u>(3,049)</u>	<u>(10,893)</u>
Fund balances - beginning	<u>14,269</u>	<u>9,259</u>	<u>68,694</u>	<u>59,560</u>	<u>119,844</u>	<u>(142,217)</u>	<u>19,252</u>
Fund balances - ending	<u>\$ (1,670)</u>	<u>\$ (10,085)</u>	<u>\$ 73,439</u>	<u>\$ 31,567</u>	<u>\$ 153,575</u>	<u>\$ (145,266)</u>	<u>\$ 8,359</u>

**City of Neptune Beach, Florida**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended September 30, 2012**

	Better Jacksonville Half Cent Tax Fund	Holiday Décor Fund	Cable TV Fund	Total	Debt Service Fund Capital Improvement Bond Series 2003	Total Nonmajor Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 359,753	\$ -	\$ -	\$ 681,359	\$ -	\$ 681,359
Fines and forfeitures	-	-	-	16,088	-	16,088
Investment Income	287	436	9	978	-	978
Grants and donations	-	8,000	-	67,850	-	67,850
Miscellaneous	-	-	-	800	-	800
Total revenues	360,040	8,436	9	767,075	-	767,075
<b>EXPENDITURES</b>						
Current:						
Public safety	-	-	-	314,222	-	314,222
Public works	6,557	-	-	42,673	-	42,673
Culture and recreation	-	8,404	2,399	102,655	-	102,655
Debt Services:						
Principal	-	-	-	-	246,562	246,562
Interest	-	-	-	-	17,078	17,078
Capital outlay	-	-	-	22,000	-	22,000
Total expenditures	6,557	8,404	2,399	481,550	263,640	745,190
Excess (deficiency) of revenues	353,483	32	(2,390)	285,525	(263,640)	21,885
<b>OTHER FINANCING SOURCES (USE)</b>						
Transfers in	-	10,559	-	47,417	263,640	311,057
Transfers out	(265,000)	-	(10,559)	(285,559)	-	(285,559)
Total other financing sources (uses)	(265,000)	10,559	(10,559)	(238,142)	263,640	25,498
Net changes in fund balances	88,483	10,591	(12,949)	47,383	-	47,383
Fund balances - beginning	323,430	46	12,949	485,086	-	485,086
Fund balances - ending	\$ 411,913	\$ 10,637	\$ -	\$ 532,469	\$ -	\$ 532,469

City of Neptune Beach, Florida  
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2012

	Police Education Fund			Community Development Block Grant Fund		
	Budgeted Amounts	Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts	Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		Original	Final	
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	7,500	7,500	(5,194)	-	-	-
Investment Income	5	5	1	-	-	-
Grants and donations	-	-	-	102,684	102,684	(42,834)
Miscellaneous	-	-	-	-	800	800
Total revenues	7,505	7,505	(5,193)	102,684	60,650	(42,034)
<b>EXPENDITURES</b>						
Current:						
Public safety	10,815	10,815	(7,436)	-	-	-
Public works	-	-	-	-	-	-
Culture and recreation	-	-	-	114,542	91,852	22,690
Debt Services:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	10,815	10,815	(7,436)	114,542	91,852	22,690
Excess (deficiency) of revenues over (under expenditures)	(3,310)	(3,310)	(12,629)	(11,858)	(31,202)	(19,344)
<b>OTHER FINANCING SOURCE (USES)</b>						
Transfers in	-	-	-	11,858	11,858	-
Transfers out	-	-	-	-	-	-
Total other financing source (uses)	-	-	-	11,858	11,858	-
Net changes in fund balances	(3,310)	(3,310)	(12,629)	-	(19,344)	(19,344)
Fund balances - beginning	14,269	14,269	-	9,259	9,259	-
Fund balances - ending	\$ 10,959	\$ 10,959	\$ (12,629)	\$ 9,259	\$ (10,085)	\$ (19,344)

City of Neptune Beach, Florida  
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2012

	Convention Development Tax Fund				Forfeiture Proceeds Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget-Positive (Negative)	Budgeted Amounts		Actual Amounts	Variance with Final Budget-Positive (Negative)
	Original	Final			Original	Final		
<b>REVENUES</b>								
Taxes	\$ 20,000	\$ 20,000	\$ 25,321	\$ 5,321	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	-	-	-	-	6,533	6,533
Investment Income	25	25	60	35	25	25	47	22
Grants and donations	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-
Total revenues	20,025	20,025	25,381	5,356	25	25	6,580	6,555
<b>EXPENDITURES</b>								
Current:								
Public safety	-	-	-	-	35,200	35,200	12,573	22,627
Public works	4,850	4,850	10,636	(5,786)	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
Debt Services:								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Capital outlay	37,500	37,500	-	37,500	-	-	22,000	(22,000)
Total expenditures	42,350	42,350	10,636	31,714	35,200	35,200	34,573	627
Excess (deficiency) of revenues over (under expenditures)	(22,325)	(22,325)	14,745	37,070	(35,175)	(35,175)	(27,993)	7,182
<b>OTHER FINANCING SOURCE (USES)</b>								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	(10,000)	(10,000)	(10,000)	-	-	-	-	-
Total other financing source (uses)	(10,000)	(10,000)	(10,000)	-	-	-	-	-
Net changes in fund balances	(32,325)	(32,325)	4,745	37,070	(35,175)	(35,175)	(27,993)	7,182
Fund balances - beginning	68,694	68,694	68,694	-	59,560	59,560	59,560	-
Fund balances - ending	\$ 36,369	\$ 36,369	\$ 73,439	\$ 37,070	\$ 24,385	\$ 24,385	\$ 31,567	\$ 7,182

City of Neptune Beach, Florida  
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2012

	Street Improvements Fund			Local Option Gas Tax Fund		
	Budgeted Amounts		Variance with	Budgeted Amounts		Variance with
	Original	Final	Final Budget- Positive (Negative)	Original	Final	Final Budget- Positive (Negative)
<b>REVENUES</b>						
Taxes	\$ 58,453	\$ 58,453	\$ 638	\$ 240,486	\$ 240,486	\$ (3,292)
Fines and forfeitures	-	-	-	-	-	-
Investment Income	50	50	70	-	-	-
Grants and donations	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total revenues	58,503	58,503	708	240,486	237,194	(3,292)
<b>EXPENDITURES</b>						
Current:						
Public safety	-	-	-	240,486	240,486	(24,757)
Public works	84,503	84,503	59,023	-	-	-
Culture and recreation	-	-	-	-	-	-
Debt Services:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	84,503	84,503	59,023	240,486	265,243	(24,757)
Excess (deficiency) of revenues over (under expenditures)	(26,000)	(26,000)	59,731	-	(28,049)	(28,049)
<b>OTHER FINANCING SOURCE (USES)</b>						
Transfers in	-	-	-	-	25,000	25,000
Transfers out	-	-	-	-	-	-
Total other financing source (uses)	-	-	-	-	25,000	25,000
Net changes in fund balances	(26,000)	(26,000)	59,731	-	(3,049)	(3,049)
Fund balances - beginning	119,844	119,844	-	(142,217)	(142,217)	-
Fund balances - ending	\$ 93,844	\$ 93,844	\$ 59,731	\$ (142,217)	\$ (145,266)	\$ (3,049)

City of Neptune Beach, Florida  
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2012

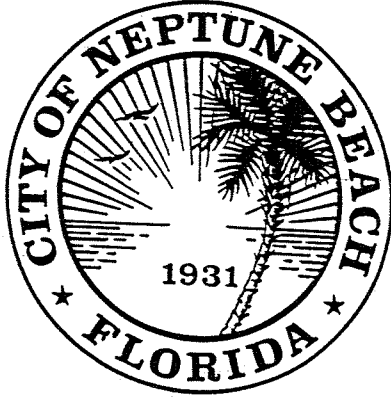
	Radio Communication Fund				Better Jacksonville Half-Cent Tax Fund			
	Budgeted Amounts		Actual Amounts		Budgeted Amounts		Actual Amounts	
	Original	Final	Original	Final	Original	Final	Original	Final
REVENUES								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 327,299	\$ 327,299	\$ 359,753	\$ -
Fines and forfeitures	18,000	18,000	7,249	(10,751)	-	-	-	-
Investment Income	25	25	13	(12)	3,000	3,000	287	(2,713)
Grants and donations	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-
Total revenues	18,025	18,025	7,262	(10,763)	330,299	330,299	360,040	(2,713)
EXPENDITURES								
Current:								
Public safety	23,025	23,025	18,155	4,870	-	-	-	-
Public works	-	-	-	-	-	-	6,557	(6,557)
Culture and recreation	-	-	-	-	-	-	-	-
Debt Services:								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	465,299	465,299	-	465,299
Total expenditures	23,025	23,025	18,155	4,870	465,299	465,299	6,557	458,742
Excess (deficiency) of revenues over (under expenditures)	(5,000)	(5,000)	(10,893)	(5,893)	(135,000)	(135,000)	353,483	488,483
OTHER FINANCING SOURCE (USES)								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	(265,000)	(265,000)	(265,000)	-
Total other financing source (uses)	-	-	-	-	(265,000)	(265,000)	(265,000)	-
Net changes in fund balances	(5,000)	(5,000)	(10,893)	(5,893)	(400,000)	(400,000)	88,483	488,483
Fund balances - beginning	19,252	19,252	19,252	-	323,430	323,430	323,430	-
Fund balances - ending	\$ 14,252	\$ 14,252	\$ 8,359	\$ (5,893)	\$ (76,570)	\$ (76,570)	\$ 411,913	\$ 488,483

**City of Neptune Beach, Florida**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended September 30, 2012**

	Holiday Décor Fund				Cable TV Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget-Positive (Negative)	Budgeted Amounts		Actual Amounts	Variance with Final Budget-Positive (Negative)
	Original	Final			Original	Final		
<b>REVENUES</b>								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	-	-	-	-	-	-
Investment Income	10	10	436	426	-	-	9	9
Grants and donations	8,000	8,000	8,000	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-
Total revenues	8,010	8,010	8,436	426	-	-	9	9
<b>EXPENDITURES</b>								
Current:								
Public safety	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-
Culture and recreation	12,010	-	8,404	(8,404)	-	-	2,399	(2,399)
Debt Services:								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Total expenditures	12,010	-	8,404	(8,404)	-	-	2,399	(2,399)
Excess (deficiency) of revenues over (under expenditures)	(4,000)	8,010	32	(7,978)	-	-	(2,390)	(2,390)
<b>OTHER FINANCING SOURCE (USES)</b>								
Transfers in	-	-	10,559	(10,559)	-	-	-	-
Transfers out	-	-	-	-	-	-	(10,559)	10,559
Total other financing source (uses)	-	-	10,559	(10,559)	-	-	10,559	10,559
Net changes in fund balances	(4,000)	8,010	10,591	2,581	-	-	(12,949)	(12,949)
Fund balances - beginning	46	46	46	-	12,949	12,949	12,949	-
Fund balances - ending	\$ (3,954)	\$ 8,056	\$ 10,637	\$ 2,581	\$ 12,949	\$ 12,949	\$ -	\$ (12,949)

City of Neptune Beach, Florida  
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2012

	Capital Improvement Bonds, Series 2003			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget-
	Original	Final		
<b>REVENUES</b>				
Total revenues	\$ -	\$ -	\$ -	\$ -
<b>EXPENDITURES</b>				
Debt Services:				
Principal	230,534	230,534	246,562	(16,028)
Interest	29,476	29,476	17,078	12,398
Total expenditures	260,010	260,010	263,640	(3,630)
Excess (deficiency) of revenues over (under) expenditures	(260,010)	(260,010)	(263,640)	\$ (3,630)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	260,010	260,010	263,640	3,630
Transfers out	-	-	-	-
Total other financing sources (uses)	260,010	260,010	263,640	3,630
Net changes in fund balances	-	-	-	-
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ -	\$ -



# **Schedule of Expenditures of the City of Jacksonville Grant Funds**

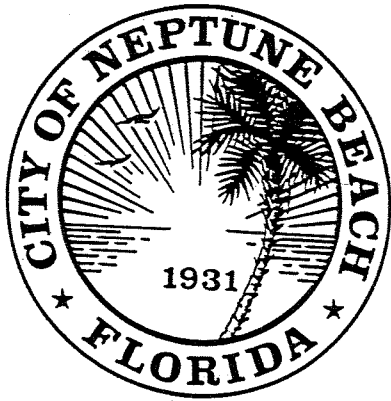
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**City of Neptune Beach, Florida**  
**Schedule of Expenditures of the City of Jacksonville Grant Funds**  
**For the Year Ended September 30, 2012**

Community Development Block Grant Funds  
 Passed through City of Jacksonville, Florida

Contract Number 6494-52  
 Project Number 004604

	<u>Approved Budget</u>	<u>Actual</u>
Receipts	\$ 49,497	\$ 49,497
Total Receipts	<u>49,497</u>	<u>49,497</u>
Expenditures:		
Salaries/Wages	40,060	40,060
Employee Benefits	<u>9,437</u>	<u>9,437</u>
Total Expenditures	<u>49,497</u>	<u>49,497</u>
Excess of Source over Expenditures	<u>\$ -</u>	<u>\$ -</u>



## Other Reports

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Annual Financial Report



**Masters, Smith & Wisby, P.A.**  
ACCOUNTANTS & BUSINESS ADVISORS

Steven D. Rawlins, CPA  
Gary M. Huggett, CPA  
Jeffrey F. Scales, CPA  
Jeffrey M. Jacobs, CPA

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor, City Councilors  
and City Manager  
City of Neptune Beach, Florida  
Neptune Beach, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Neptune Beach, Florida (the City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

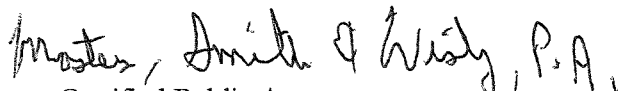
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

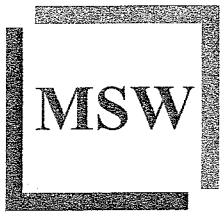
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to the management of the City in a separate letter dated March 28, 2013.

This report is intended for the information and use of management, City Council, others within the City, and the Auditor General, State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

March 28, 2013



**Masters, Smith & Wisby, P.A.**  
ACCOUNTANTS & BUSINESS ADVISORS

Steven D. Rawlins, CPA  
Gary M. Huggett, CPA  
Jeffrey F. Scales, CPA  
Jeffrey M. Jacobs, CPA

**MANAGEMENT LETTER OF INDEPENDENT AUDITORS  
REQUIRED BY CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

Honorable Mayor, City Councilors  
And City Manager  
City of Neptune Beach, Florida  
Neptune Beach, Florida

We have audited the financial statements of the City of Neptune Beach, Florida (the City) as of and for the year ended September 30, 2012, and have issued our report thereon dated March 28, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our report on internal control over financial reporting and compliance and other matters. Disclosures in that report, which is dated March 28, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the state of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports or schedules.

Section 10.554(1)(i)1, Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial report. We determined that corrective actions were taken to address the findings noted in the preceding annual financial report.

Section 10.554(1)(i)2, Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined the City complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3, Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we have the following recommendations:

Finding and Recommendation: Finding 2012-01

The City does not defer occupational license fees that are paid in advance of being earned. Instead, the City uses the cash basis of accounting for these fees and recognizes them as revenue when paid. Approximately \$34,000 of fees were paid to the City in August and September of 2012 and were recorded as revenue instead of being deferred. We recommend the City defer occupational license fees that are paid in advance of being earned.

City's Response:

The City concurs with this finding and will change its method of recognizing occupational license fees for its year ending September 30, 2013 so that only fees that are earned and available are recognized as revenue.

Finding and Recommendation: Finding 2012-02

The City had capitalized three fixed assets costing \$9,471 that represented an expense and expensed two fixed assets costing \$50,157 that should have been capitalized. These mispostings were discovered during the reconciliation of the City's capital outlay expense per the general ledger to the fixed asset purchase detail. We recommend prior to closing the books, the City reconciles its capital outlay expense on the general ledger to its fixed asset addition detail and make any necessary adjustments to ensure agreement between them.

City's Response:

The City concurs with this finding and will implement the above recommendation for the year ended September 30, 2013.

Section 10.554(1)(i)4, Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5, Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both the quantitative and qualitative factors: (1) violation of laws, regulation, contracts or grant agreements, or abuse that have occurred, or were likely to have occurred, and (2) control deficiencies that are not significant deficiencies, including but not limited to: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditors. In connection with our audit, we did not have any findings.

Section 10.554(1)(i)6, Rules of the Auditor General requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed

in the management letter, unless disclosed in the notes to the financial statements. This information is disclosed in the notes to the financial statements.

Section 10.554(1)(i)7.(a), Rules of the Auditor General, requires a statement to be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.(b), Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2012, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7(c) and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

*Masters, Smith & Wied, P.A.*

Certified Public Accountants

March 28, 2013